

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 9. LONG-TERM LIABILITIES (CONTINUED)

Proprietary Funds

Long-term debt in the Water and Sewer funds at June 30, 2022 are as follows:

	Current Portion	Long-Term Portion	June 30, 2022
Revenue Bonds (Series 2013) Water Fund	\$ 62,000	\$ 148,000	\$ 210,000
Revenue Bonds (Series 2016) Water Fund	20,000	290,000	310,000
Revenue Bonds (Series 2018) Water Fund	10,000	188,000	198,000
Revenue Bonds (Series 2021) Water Fund	359,103	304,690	663,793
Revenue Bonds (Series 2013) Sewer Fund	9,840	124,790	134,630
Wastewater System SID No 1 Series 2021B Bond	37,344	813,693	851,037
Wastewater System SID No 2 Series 2021D Bond	30,537	627,342	657,879
Revenue Bonds (Series 2022A) Sewer Fund	8,629	1,713,371	1,722,000
Revenue Bonds (series 2022C) Sewer Fund	23,401	1,528,599	1,552,000
Compensated Absences Water and Sewer	5,500	49,496	54,996
Total	<u>\$ 566,354</u>	<u>\$ 5,787,981</u>	<u>\$ 6,354,335</u>

Refunding Bonds: The City of Thompson Falls had a Sewer Revenue Bond Series 1998 issued by USDA Rural Development. The State of Montana Department of Natural Resources agreed to refinance the Series 1998 revenue bond, amending the interest rate from 4.75% to 3% and maturity date from September 29, 2038 to August 1, 2033, through the Coal Severance Tax Loan program. The refinancing resulted in a savings of \$59,071 to the Sewer Fund. The Series 2013 Bond matures August 1, 2033 and has an outstanding balance as of June 30, 2022 of \$134,630.

The City also refunded the Drinking Water Loans Series 2005A, 2005B, and 2008. The interest rates for the Series 2005A and 2008 revenue bonds were amended from 2.75% to 2.25%. The interest rate for the Series 2005B revenue bonds were amended from 3.75% to 2.25%. The refinancing results in a savings of \$79,022 to the Water Fund. The refinancing was complete on September 16, 2013 and matures July 2, 2033 and has an outstanding balance of \$40,000 and \$170,000 as of June 30, 2022.

Water System Revenue Bonds: On March 14, 2016, the City adopted Resolution No. 678 relating to the issuance of \$425,000 water system revenue bond (DNRC Drinking Water State Revolving Loan Program) Series 2016 B Bond. The bonds mature January 1, 2036 and have an interest rate of 2.5%. The outstanding balance as of June 30, 2022, was \$310,000.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 9. LONG-TERM LIABILITIES (CONTINUED)

Proprietary Funds (Continued)

On August 29, 2018, the City adopted Resolution No. 735 relating to the issuance of \$476,000 Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program) consisting of \$238,000 Subordinate Lien Taxable Series 2018A Bond and \$238,000 Series 2018B Bond. The Series 2018A Bond was forgiven during the year ended June 30, 2020.

The Series 2018B bonds have an outstanding balance as of June 30, 2022, of \$198,000. The Series 2018 Project generally consists of the cost of the design, construction, and financing of approximately 2,000 lineal feet of water main replacement with new 6-inch PVC water main; installation of new fire hydrants and blowoffs; replacement of service lines; and surface restoration including asphalt and gravel.

On May 11, 2020, the City adopted resolution No. 763 relating to the issuance of \$3,274,000 Water System Revenue Bond consisting of \$500,000 Subordinate Lien Taxable Series 2021 A Bond and \$500,000 Series 2021B Bond. These have an interest rate of 2.5% and mature July 1, 2041. At June 30, 2022 the balance on these bonds was \$663,793. In March, 2023 \$339,658 of Series 2021A Bond was forgiven by the USDA

On May 1, 2019, the City issued a Wastewater Bond Anticipation Note Series 2019 to the Department of Natural Resources and Conservation of the State of Montana in the amount of \$1,030,000. This Note was issued in anticipation of the receipt of up to \$4,832,000 of the City's wastewater revenue bonds and special improvement district bonds by the U.S. Department of Agriculture, Rural Development for the wastewater system improvement project. This anticipation note was refinanced on June 24, 2021 for \$3,802,000 which was paid off on March 17, 2022 with the issuance of the Series 2022A and C bonds.

Issuance of Special Improvement District Series 2021 Bonds

During May 2020, the City Council adopted Resolution No. 764, authorizing the issuance of Special Improvement District No. 1 Series 2021B Bond in the amount of \$870,000 and Special Improvement District No. 2 Series 2021D Bond in the amount of \$688,000 for the improvement of the City's wastewater system. These have an interest rate of 1.375% and mature June 24, 2041. As of June 30, 2022, the outstanding balance of these bonds was \$851,037 and \$657,879.

One April 13, 2022 the City issued Wastewater System Revenue Bonds Series 2022A in the amount of \$1,722,000 and Series 2022C in the amount of \$1,552,000. The bonds mature on March 17, 2062 and have an interest rate of 1.25%. As of June 30, 2022, the outstanding balance of these bonds was \$1,722,000 and \$1,552,000.

The Series 2021 Project Phase 1 and 2 generally consists of the cost of the design, acquisition, construction, installation and financing of new sewer service connections to properties, abandonment of existing septic systems and restoration of surface disturbances caused by the forgoing and to update the existing sewer system and treatment facilities. The total estimated cost of the project is \$15,593,685.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 9. LONG-TERM LIABILITIES (CONTINUED)

Proprietary Funds (Continued)

Wastewater System Improvement Project

The City applied for loans and grants from the United States Department of Agriculture, Rural Development office (RD), consisting of the purchase by RD of the City's wastewater system revenue bonds and special improvement district bonds in the estimate aggregate amount of \$4,832,000 and an estimated grant from RD of \$9,182,000 (collectively the "Anticipated RD Loans and Grants") to provide funds under certain conditions to pay for the design, acquisition, construction, installation and financing of new sewer service connections to properties, abandonment of existing septic systems and restoration of surface disturbances.

The City pledges income derived from the acquired or constructed assets to pay debt service.

The annual requirements to amortize the Series 2013 Water Bonds issue are as follows:

Series 2013 Water Bonds	Principal	Interest	Total
2023	\$ 62,000	\$ 4,376	\$ 66,376
2024	62,000	2,981	64,981
2025	64,000	1,575	65,575
2026	7,000	450	7,450
2027	7,000	293	7,293
Thereafter	<u>8,000</u>	<u>135</u>	<u>8,135</u>
Total	<u>\$ 210,000</u>	<u>\$ 9,810</u>	<u>\$ 219,810</u>

The annual requirements to amortize the Series 2016 Water Bonds issue are as follows:

Series 2016 Water Bonds	Principal	Interest	Total
2023	\$ 20,000	\$ 7,625	\$ 27,625
2024	20,000	7,125	27,125
2025	20,000	6,625	26,625
2026	21,000	6,125	27,125
2027	22,000	5,588	27,588
Thereafter	<u>207,000</u>	<u>24,127</u>	<u>231,127</u>
Total	<u>\$ 310,000</u>	<u>\$ 57,215</u>	<u>\$ 367,215</u>

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 9. LONG-TERM LIABILITIES (CONTINUED)

Proprietary Funds (Continued)

The annual requirements to amortize the Series 2018 Water Bonds issue are as follows:

Series 2018 Water Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 10,000	\$ 4,888	\$ 14,888
2024	10,000	4,638	14,638
2025	10,000	4,388	14,388
2026	12,000	4,125	16,125
2027	12,000	3,825	15,825
Thereafter	<u>144,000</u>	<u>21,453</u>	<u>165,453</u>
Total	<u>\$ 198,000</u>	<u>\$ 43,317</u>	<u>\$ 241,317</u>

The annual requirements to amortize the Series 2021 Water Bonds issue are as follows:

Series 2021 Water Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 359,103	\$ 9,657	\$ 368,760
2024	18,000	10,938	28,938
2025	20,000	10,475	30,475
2026	21,000	9,975	30,975
2027	22,000	9,438	31,438
Thereafter	<u>223,690</u>	<u>68,603</u>	<u>292,293</u>
Total	<u>\$ 663,793</u>	<u>\$ 119,086</u>	<u>\$ 782,879</u>

The annual requirements to amortize the Series 2013 Sewer Bonds issue are as follows:

Series 2013 Sewer Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 9,840	\$ 3,915	\$ 13,755
2024	10,137	3,618	13,755
2025	10,443	3,312	13,755
2026	10,759	2,996	13,755
2027	11,084	2,671	13,755
Thereafter	<u>82,367</u>	<u>8,724</u>	<u>91,091</u>
Total	<u>\$ 134,630</u>	<u>\$ 25,236</u>	<u>\$ 159,866</u>

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 9. LONG-TERM LIABILITIES (CONTINUED)

Proprietary Funds (Continued)

The annual requirements to amortize the Series 2021B and D Sewer Bonds issue are as follows:

Series 2021B SID No 1 Sewer Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 37,344	\$ 12,578	\$ 49,922
2024	38,867	11,055	49,922
2025	39,403	10,519	49,922
2026	39,947	9,975	49,922
2027	40,498	9,424	49,922
Thereafter	<u>654,978</u>	<u>69,770</u>	<u>724,748</u>
Total	<u>\$ 851,037</u>	<u>\$ 123,321</u>	<u>\$ 974,358</u>

Series 2021D SID No 2 Sewer Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 30,537	\$ 8,941	\$ 39,478
2024	30,958	8,519	39,477
2025	31,385	8,093	39,478
2026	31,818	7,660	39,478
2027	32,257	7,221	39,478
Thereafter	<u>500,924</u>	<u>52,444</u>	<u>553,368</u>
Total	<u>\$ 657,879</u>	<u>\$ 92,878</u>	<u>\$ 750,757</u>

The annual requirements to amortize the Series 2022A & C Sewer Bonds issues are as follows:

Series 2022A Sewer Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 8,629	\$ 28,707	\$ 37,336
2024	34,786	21,218	56,004
2025	35,223	20,781	56,004
2026	35,666	20,338	56,004
2027	36,114	19,890	56,004
Thereafter	<u>1,571,582</u>	<u>332,554</u>	<u>1,904,136</u>
Total	<u>\$ 1,722,000</u>	<u>\$ 443,488</u>	<u>\$ 2,165,488</u>

Series 2022C Sewer Bonds	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 23,401	\$ 10,247	\$ 33,648
2024	31,545	18,927	50,472
2025	31,941	18,531	50,472
2026	32,342	18,130	50,472
2027	32,750	17,722	50,472
Thereafter	<u>1,400,021</u>	<u>320,008</u>	<u>1,720,029</u>
Total	<u>\$ 1,552,000</u>	<u>\$ 403,565</u>	<u>\$ 1,955,565</u>

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Post-Employment Benefits

The City allows its retired employees to continue to participate in its group health insurance plan at a premium rate that may or may not cover all of the related health care costs. This may result in another post-employment benefit (OPEB) referred to as an "implicit rate subsidy". OPEB is considered to be a long term liability and as required by GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the City has calculated a postemployment benefit liability for the fiscal year ended June 30, 2022.

Plan Description

The City is a member of the Montana Municipal Inter-local Authority (MMIA), a local government risk retention pool that administers the City's group health insurance plan, an agent multiple-employer defined benefit plan. As required by State law (MCA 2-18-704), the City provides its employees who retire, along with their eligible spouses and dependents, the option to continue to participate in the City's group health insurance plan. To continue this health insurance coverage, the retirees are required to pay the full amount of their premium.

State law does not require that the City provide the same premium rates to retirees as it pays for its active employees, nor does it require that the City pay any portion of the retiree premiums. Premium rates and healthcare benefits may be administratively altered at the end of any contract year.

MMIA issues an annual financial report that can be obtained at:

Montana Municipal Interlocal Authority
P.O. Box 6669
Helena, MT 59604-6669

Funding Policy

The City provides no direct subsidy to the health insurance premiums for retirees. Retirees pay the entire cost of the health insurance premium. Eligible retired employees include former fulltime and certain other employees. At June 30, 2022 the City had no retired employees, no spouses and no employees covered under COBRA insurance coverage. In 2022, no retirees contributed towards the cost of the City's annual premium. There were 11 active employees covered by the benefit terms.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost Obligation

The City's annual OPEB cost (expense) is calculated based on the projected unit credit cost method as of June 30, 2022 using MMIA's alternative measurement method calculations. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by assets of the plan, there is an unfunded liability to be funded over a stipulated period in accordance with an amortization schedule. For the year ended June 30, 2022, the City recognized OPEB expense of \$-0-.

The City's annual total OPEB obligation for the fiscal year ended June 30, 2022 was as follows:

Total OPEB Liability

Service cost	\$ -
Interest	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	-
Benefit payments	-
Net change in total OPEB liability	-
Total OPEB liability - beginning	<u>86,936</u>
Total OPEB liability - ending	<u>\$ 86,936</u>

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual fund limitations on the pattern of cost sharing between employer and plan members in the future. The methods used are designed to reduce effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long term perspective of the calculations.

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

	<u>OPEB Valuation</u>
Average age of retirement based on historical data	57.5
Turnover rate	0.00%
Discount rate	3.50%
Average salary increase	4.00%

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Healthcare cost trend rates

From Year	To Year	Annual % Increase	From Year	To Year	Annual % Increase
2019	2020	7.00%	2050	2054	4.80%
2020	2021	6.50%	2054	2059	4.70%
2021	2022	6.00%	2059	2066	4.60%
2022	2023	5.90%	2066	2067	4.50%
2023	2024	5.70%	2067	2068	4.40%
2024	2025	5.60%	2068	2069	4.30%
2025	2026	5.50%	2069	2071	4.20%
2026	2027	5.30%	2071	2072	4.10%
2027	2044	5.20%	2072	2074	4.00%
2044	2045	5.10%	2074	2075	3.90%
2045	2047	5.00%	2075	+	3.80%
2047	2050	4.90%			

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

	1.0% Decrease (2.5%)	Discount Rate (3.50%)	1.0% Increase (4.50%)
Total OPEB Liability	\$ 88,400	\$ 86,936	\$ 84,566

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

	1.0% Decrease (2.5%)	Discount Rate (3.50%)	1.0% Increase (4.50%)
Total OPEB Liability	\$ 88,400	\$ 86,936	\$ 84,566

* See the actuarial assumptions and other inputs disclosure above to determine the healthcare cost trend rates used to calculate the total OPEB liability.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS

Plan Description and Provisions

The City participates in two statewide, cost-sharing, multiple-employer, retirement benefit plans, the Public Employees' Retirement System and the Municipal Police Officers' Retirement System. The plans cover all employees, except certain part-time employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. Both plans issue publicly available annual reports, stand-alone financial statements, actuarial valuations, experience studies and plan audited financial statements. Those reports may be obtained from the Public Employees' Retirement Board,

P.O. Box 200131, Helena, MT 59620-0131, or the Montana Public Employee Retirement Administration website at <http://mpera.mt.gov/index.shtml>.

The information provided below is for employers who are using a June 30, 2021 measurement date for the 2022 reporting. Employers are provided guidance in GASB 68, paragraph 74, that pension amounts must be combined as a total or aggregate for reporting. This is true when employers are provided benefits through more than one pension, whether cost-sharing, single-employer, or agent plans.

	The employer's proportionate shared associated with PERS	The employer's proportionate shared associated with MPORS	The employer's total pension amounts
Net pension liability	\$ 304,346	\$ 191,727	\$ 496,073
Deferred outflows of resources	\$ 86,018	\$ 72,154	\$ 158,172
Deferred inflows of resources	\$ 136,292	\$ 92,466	\$ 228,758
Pension expense	\$ 34,403	\$ 137,618	\$ 172,021

Public Employees' Retirement System

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS) Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability (NPL), pension expense, and deferred inflows and deferred outflows of resources associated with pensions.

Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, MCA. This plan provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislatures.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Plan Description (Continued)

All new members are initially members of the PERS-DBRP and have a 12-month window during which they choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the defined benefit and defined contribution retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

Benefits Provided

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

Service retirement:

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

Early Retirement

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):

- 1) 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. A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
 - b. No service credit for second employment;
 - c. Start the same benefit amount the month following termination; and
 - d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- 2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:
 - a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

- b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- 3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
 - a. The same retirement as prior to the return to service;
 - b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
 - c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's Highest Average Compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;

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

Compensation Cap

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

Monthly Benefit Formula

Members hired prior to July 1, 2011:

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

Members hired on or after July 1, 2011:

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

Guaranteed Annual Benefit Adjustment (GABA)

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Guaranteed Annual Benefit Adjustment (GABA)

- Members hired on or after July 1, 2013: (a) 1.5 for each year PERS is funded at or above 90%; (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and (c) 0% whenever the amortization period for PERS is 40 years or more.

Contributions

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

Special Funding

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

Not Special Funding

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

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

Fiscal Year	Member		State & Universities	Local Government		School Districts	
			Employer	Employer	State	Employer	State
	Hired <7/01/11	Hired >7/01/11					
2022	7.900%	7.900%	8.970%	8.870%	0.100%	8.600%	0.370%
2021	7.900%	7.900%	8.870%	8.770%	0.100%	8.500%	0.370%
2020	7.900%	7.900%	8.770%	8.670%	0.100%	8.400%	0.370%
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.300%	0.370%
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012-2013	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%
2010-2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%

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.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Not Special Funding (Continued)

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 actuary valuation results that show 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 PCR are included in the employer reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to the member accounts.
3. Non Employer Contributions
 - a. Special Funding
 - 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 of \$33,951,150.

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

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's Total Pension Liability (TPL). The basis for the TPL as of June 30, 2021, was determined by taking the results of the June 20, 2020, actuarial valuation and applying standard roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The 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.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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 ration of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$304,346 and the employer's proportionate share was 0.013961 percent.

As of measurement date	Net Pension Liability as of June 30, 2021	Net Pension Liability as of June 30, 2020	Percent of Collective NPL as of June 30, 2021	Percent of Collective NPL as of June 30, 2020	Change in Percent of Collective NPL
TOWN OF THOMPSON FALLS					
Proportionate share	\$ 304,346	\$ 455,178	0.013961%	0.015082%	-0.001121%
STATE OF MONTANA					
Proportionate share associated with employer	<u>89,788</u>	<u>143,560</u>	<u>0.004121%</u>	<u>0.004754%</u>	<u>-0.000633%</u>
Total	<u>\$ 394,134</u>	<u>\$ 598,738</u>	<u>0.018082%</u>	<u>0.019836%</u>	<u>-0.001754%</u>

Changes in Actuarial Assumptions and Methods

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

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

Changes in Benefit Terms

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

Changes in Proportionate Share

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

Pension Expense

As of measurement date	Pension Expense as of June 30, 2021
TOWN OF THOMPSON FALLS	
Proportionate share	\$ 7,493
TOWN OF THOMPSON FALLS	
Grant Revenue - State of Montana Proportionate Share for employer	<u>26,910</u>
	<u>\$ 34,403</u>

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Pension Expense (Continued)

At June 30, 2022, the City recognized a pension expense of \$34,403 for its proportionate share of the PERS' pension expense and recognized grant revenue of \$20,510 for the State of Montana proportionate share of the pension expense associated with the City.

Recognition of Deferred Inflows and Outflows

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,247	\$ 2,203
Differences between projected and actual investment earnings	-	123,294
Changes in actuarial assumptions	45,079	-
Difference between actual and expected contributions	10,465	10,795
*Contributions paid to PERS subsequent to the measurement date - FY 2022 Contributions	27,227	-
Total	\$ 86,018	\$ 136,292

* Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2022.

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

For the measurement Year ended June 30:	Recognition of deferred outflows and deferred inflows in future years as an increase or (decrease) to Pension Expense
2022	\$ 31,856
2023	(12,992)
2024	(29,778)
2025	(39,358)
2026	-
Thereafter	-

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Actuarial Assumptions

The TPL in the June 30, 2021 actuarial valuation was determined on the results of an actuarial valuation date of June 30, 2020, using the following assumptions, applied to all period included in the measurement. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.06%
- Admin expense as a % of payroll 0.28%
- General Wage Growth* 3.50%
- *includes Inflation at 2.40%
- Merit Increases 0% to 4.8%
- Postretirement Benefit Increases

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the members' 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:
 - a) 1.5% for each year PERS is funded at or above 90%;
 - b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - c) 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, service retired members and beneficiaries 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 were based on RP 2000 Combined Mortality Tables with no projections.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

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 projects. 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 below.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return Arithmetic Basis</u>
Cash Equivalents	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	<u>100.00%</u>	

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.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Public Employees' Retirement System (Continued)

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.06%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.00% Decrease (6.06%)	Current Discount Rate	1.00% Increase (8.06%)
The TOWN OF THOMPSON FALLS' proportion of Net Pension Liability	\$ <u>483,102</u>	\$ <u>304,346</u>	\$ <u>154,411</u>

PERS Disclosure for the Defined Contribution Plan

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

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

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

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

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

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System

Net Pension Liability

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Municipal Police Officers' Retirement System (MPORS or the Plan). This includes the proportionate share of the collective NPL, pension expense, and deferred inflows and deferred outflows of resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2021 measurement date for the 2022 reporting.

Summary of Significant Accounting Policies

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

Plan Description

The Municipal Police Officers' Retirement System (MPORS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established in 1974 and governed by Title 19, chapters 2 & 9, MCA. This plan provides retirement benefits to all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

Summary of Benefits

The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after 5 years of service.

Service Retirement and Monthly Benefit Formula

- 20 years of membership service, regardless of age.
- Age 50 with 5 years of membership service (early retirement).
- 2.5% of F AC x years of service credit.

Second Retirement:

Recalculated using specific criteria for members who return to covered MPORS employment prior to July 1, 2017:

- 1) Less than 20 years of membership service, upon re-employment, repay benefits and subsequent retirement is based on total MPORS service.
- 2) More than 20 years of membership service, upon re-employment, receives initial benefit and a new retirement benefit based on additional service credit and FAC after re-employment.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Summary of Benefits (Continued)

Second Retirement (Continued):

Applies to retirement system members re-employed in a MPORS position on or after July 1, 2017:

- 1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - a. Is not awarded service credit for the period of reemployment;
 - b. Is refunded the accumulated contributions associated with the period of reemployment;
 - c. Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- 2) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - a. Is awarded service credit for the period of reemployment;
 - b. Starting the first month following termination of service, receives:
 - i. The same retirement benefit previously paid to the member, and
 - ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - i. On the initial retirement benefit in January immediately following second retirement, and
 - ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- 3) A member who returns to covered service is not eligible for a disability benefit.

Member's Final Average Compensation (FAC)

Hired prior to July 1, 1977 - average monthly compensation of final year of service;

Hired on or after July 1, 1977 - final average compensation (FAC) for last consecutive 36 months.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Summary of Benefits (Continued)

Compensation Cap

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

Guaranteed Annual Benefit Adjustment (GABA)

- Hired on or after July 1, 1997, or those electing GABA, and has been retired for at least 12 months, a GABA will be made each year in January equal to 3%.

Minimum Benefit Adjustment (Non-GABA)

- The minimum benefit provided may not be less than 50% of the compensation paid to a newly confirmed police officer of the employer that last employed the member as a police officer in the current fiscal year.

Contributions

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

Special Funding

MCA 19-9-702 requires the State of Montana to contribute a percentage of total compensation directly to the Plan annually after the end of each fiscal year. Member, employer and State contribution rates are shown in the table below.

Fiscal Year	Member				Employer	State
	Hired <7/1/75	Hired >6/30/75	Hired >6/30/79	Hired >6/30/97 GABA		
2000-2022	5.800%	7.000%	8.500%	9.000%	14.410%	29.370%
1998-1999	7.800%	9.000%	10.500%	11.000%	14.410%	29.370%
1997	7.800%	9.000%	10.500%		14.360%	29.370%

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

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

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

The TPL minus the Fiduciary Net Position equals the 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. Due to the existence of the special funding situation, the state is required to report a proportionate share of a local government's collective NPL that is associated with the non-state employer. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The employer recorded a liability of \$191,727 and the employer's proportionate share was 0.1055 percent.

As of measurement date:	Net Pension Liability as of June 30, 2021	Net Pension Liability as of June 30, 2020	Percent of Collective NPL as of June 30, 2021	Percent of Collective NPL as of June 30, 2020	Change in Percent of Collective NPL
CITY OF THOMPSON FALLS Proportionate share	\$ 191,727	\$ 312,114	0.1055%	0.1276%	-0.0221%
STATE OF MONTANA Proportionate share associated with employer	<u>389,696</u>	<u>629,504</u>	<u>0.2144%</u>	<u>0.2574%</u>	<u>-0.0430%</u>
Total	<u>\$ 581,423</u>	<u>\$ 941,618</u>	<u>0.3199%</u>	<u>0.3850%</u>	<u>-0.0651%</u>

Changes in Actuarial Assumptions and Methods:

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

1. The discount rate was lowered from 7.34% to 7.06%
2. 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 between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Pension Expense

At June 30, 2021 measurement date, the City recognized its proportionate share of the MPORS' pension expense of \$45,403. The City also recognized grant revenue of \$92,215 for the support provided by the State of Montana for the proportionate share of the pension expense that is associated with the City.

As of measurement date	Pension Expense <u>as of June 30, 2021</u>
TOWN OF THOMPSON FALLS	
Proportionate share	\$ 45,403
STATE OF MONTANA	
Proportionate share associated with employer	<u>92,215</u>
	<u>\$ 137,618</u>

Recognition of Deferred Inflows and Outflows

At June 30, 2021, the City reported its proportionate share of MPORS' deferred outflows of resources and deferred inflows of resources from the following sources:

As of measurement date	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 6,098	\$ 2,094
Differences between projected and actual investment earnings	-	57,761
Changes in actuarial assumptions	36,632	-
Difference between actual and expected contributions	-	32,611
*Contributions paid to MPORS subsequent to the measurement date - FY 2021 Contributions	<u>29,424</u>	<u>-</u>
Total	<u>\$ 72,154</u>	<u>\$ 92,466</u>

* Amounts reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2022.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Recognition of Deferred Inflows and Outflows (Continued)

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

For the Measurement Year ended June 30:	Recognition of deferred outflows and deferred inflows in future years as an increase or (decrease) to Pension Expense
2021	\$ 31,665
2022	(15,351)
2023	(17,927)
2024	(18,698)
2025	-
Thereafter	-

Actuarial Assumptions

The TPL in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

- Investment Return (net of admin expense) 7.06%
- Admin expense as a % of payroll 0.18%
- General Wage Growth* 3.5%
- *includes inflation at 2.40%
- Merit Increases 0% to 6.60%
- Postretirement Benefit Increases
 - Guaranteed Annual Benefit Adjustment (GABA)
 - Hired on or after July 1, 1997, or those electing GABA, and has been retired for at least 12 months, a GABA will be made each year in January equal to 3%.
 - If hired before July 1, 1997 and member did not elect GABA, the minimum benefit adjustment provided is equal to 50% of the current base compensation of a newly confirmed police officer of the employer that last employed the member as a police officer.
- Mortality assumptions among contributing members, service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees were based on RP 2000 Combined Mortality Tables.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

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 projects. 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 below.

<u>Asset Class</u>	<u>Target Asset</u>	<u>Long-Term Expected Real Rate of Return Arithmetic Basis</u>
Cash Equivalents	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	<u>100.00%</u>	

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 29.37% of the salaries paid by employers. 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 2134. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2022

NOTE 11. RETIREMENT PLANS (CONTINUED)

Municipal Police Officers' Retirement System (Continued)

Sensitivity Analysis

The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.34%, as well as what the NPL would be if it were calculated using a discount rate 1.0% lower or 1.00% higher than the current rate.

As of measurement date	1.00% Decrease (6.06%)	Current Discount Rate	1.00% Increase (8.06%)
The TOWN OF THOMPSON FALLS' proportion of Net Pension Liability	<u>\$ 313,689</u>	<u>\$ 191,727</u>	<u>\$ 94,776</u>

NOTE 12. FUND BALANCES

GASB Statement No. 54 requires the City to present the governmental fund balances and each major special revenue fund balances by specific purposes. In the basic financial statements, the fund balance classifications are presented in the aggregate. The table presented below further displays the fund balance classifications by major purposes:

	<u>General Fund</u>	<u>Library Fund</u>	<u>ARPA Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Restricted					
Public safety	\$ -	\$ -	\$ -	\$ 30,220	\$ 30,220
Public works	-	-	365,060	149,005	514,065
Culture and recreation	-	97,210	-	-	97,210
Unassigned	<u>480,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480,178</u>
Total	<u>\$ 480,178</u>	<u>\$ 97,210</u>	<u>\$ 365,060</u>	<u>\$ 179,225</u>	<u>\$ 1,121,673</u>

There were no funds with deficit fund balances at June 30, 2022.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 13. TAX ABATEMENTS

The City's property tax revenue is subject to tax abatement agreements it enters into directly, as well as indirectly by those entered into by the County. Tax abatement agreements are entered into on an individual basis with businesses under the Montana Code Annotated 2015, Title 15 Taxation (the Code). Under the Code, local governments may grant property tax abatements to business with qualifying improvements or modernized processes that represent new industry or expansion of an existing industry (15-24-1402). In the first five years after a construction permit is issued, a business' property is taxed at 50 percent of taxable value with equal percentage increases taxed until the full taxable value is attained in the tenth year. In subsequent years, the property is taxed at its full taxable value (15-10-420). For the year ended June 30, 2022, the City has not entered into any tax abatement agreements, nor has the City received any information from the County regarding any indirect effects to the City, if any, regarding tax abatement agreements entered into by those entities during the fiscal year.

NOTE 14. RISK MANAGEMENT

The City faces a number of risks of loss including (a) loss or damage to property, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies through the Montana Municipal Interlocal Authority, transfer all risk of loss, except for relatively small deductible amounts, are purchased for commercial property and boiler insurance. The City participates in a statewide public risk pool operated by the Montana Municipal Interlocal Authority (MNIIA) for business auto, contractors' equipment, bonding of public officials, workers' compensation and for tort liability coverage. In addition the Montana Municipal Insurance Authority provides the City employee medical, dental and vision benefit plans. MMIA provides an environmental damages fund of five million each year for all participants on a first come, first served basis. The City has no coverage for potential losses from environmental damages once the five million is expended. The City has not had any such claims in any of the past four fiscal years.

NOTE 15. INTERLOCAL AGREEMENTS

Sanders County and the City of Thompson Falls entered into a contract June 13, 2011 to update previous agreements entered into January 11, 1993 and December 11, 2000, whereby a free public library will be assured a continuous existence for all residents of the Library District from a central facility located within the City and operated by the joint efforts and authority of both the City and County. In accordance with MCA Sections 22-1-305 through 22-1-317, the Thompson Falls Public Library is governed by a Board of Trustees composed of five members. The City of Thompson Falls appoints two of the Trustee and Sanders County Commissioners appoint two members and the City and County jointly appoint the fifth member.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 15. INTERLOCAL AGREEMENTS (CONTINUED)

The Board of Trustees submit the Library's budget proposal to the City Council and the Board of County Commissioners in sufficient time for each to include in their annual budget. The library is financed by a district-wide levy as set by the voters. The property of the library district, both real and personal is held in the name of the City of Thompson Falls. In the event of termination of the Thompson Falls Public Library, the building, furniture, equipment, monies, and other assets acquired prior to the effective date, shall be disbursed by the Board of Trustees with the consent of the City Council and County Board of Commissioners.

NOTE 16. SERVICES PROVIDED FROM OTHER GOVERNMENTS

Sanders County provides various financial services to the City. The County serves as cashier and treasurer for the City for tax and assessment collections and other revenues received by the County. The collections made by the County on behalf of the City are accounted for in a custodial fund in the City's name and are periodically remitted to the City by the County Treasurer. No service charges have been recorded by either the City or the County.

NOTE 17. PRIOR PERIOD ADJUSTMENT

The City corrected an error of \$478 in the Water Fund and \$11,120 in the Sewer Fund to write off a tax lien that was not collectible.

NOTE 18. SUBSEQUENT EVENTS

In November, 2022, the City had subsequent draws of \$126,740 on the Water Revenue Bond Series 2021 and on March 21, 2023 the Department of Natural Resources and Conservation forgave the Series 2021A portion for \$481,444.

On December 30, 2022 the City executed a loan agreement for the purchase of a snow plow with the Board of Investments of the State of Montana for \$68,898 at 1.5% initial interest rate, semi-annual payments with a maturity date of February 15, 2030.

The City began Phase 3 and 4 of the Wastewater System improvement which will include federal and state grant funding of \$14,252,000 and additional US Department of Agriculture, Rural Development office loans of \$4,793,000 for a total of \$19,220,000. \$489,854 has been spent through December 31, 2023.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2022

NOTE 18. SUBSEQUENT EVENTS (CONTINUED)

The city passed Resolution #822 to create Wastewater Special Improvement District No 3 for \$1,100,000 and Resolution #823 to create Wastewater Special Improvement District No 4 for \$750,000 for the purpose of constructing certain wastewater improvements in Phase 3 and 4 of the project.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF THOMPSON FALLS, MONTANA
 SCHEDULE OF BUDGETARY COMPARISON -
 GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2022**

	General Fund				Library Fund				ARPA Funds - Covid Money			
	Budgeted Amounts		Actual	Variance From Final Budget	Budgeted Amounts		Actual	Variance From Final Budget	Budgeted Amounts		Actual	Variance From Final Budget
	Original	Final			Original	Final			Original	Final		
REVENUES												
Property taxes and assessments	\$ 325,072	\$ 325,072	\$ 319,523	\$ (5,549)	\$ 116,321	\$ 119,321	\$ 113,939	\$ (2,382)	\$ -	\$ -	\$ -	\$ -
Licenses and permits	5,100	5,100	2,065	(3,035)	-	-	-	-	-	-	-	-
Intergovernmental	384,257	384,267	474,523	90,256	5,410	5,410	19,582	14,172	-	182,804	365,060	182,256
Charges for services	9,100	45,100	36,808	(8,294)	-	-	-	-	-	-	-	-
Fine and forfeitures	38,000	38,000	32,224	(5,776)	-	-	-	-	-	-	-	-
Miscellaneous	66,000	66,000	17,534	(48,466)	4,014	4,014	2,765	(1,249)	-	-	-	-
Contributions	-	-	10,769	10,769	-	-	-	1,501	-	-	-	-
Investment earnings	1,500	1,500	477	(1,023)	50	50	146	96	-	-	-	-
Total revenue	<u>829,039</u>	<u>855,039</u>	<u>893,921</u>	<u>28,882</u>	<u>125,795</u>	<u>125,795</u>	<u>137,933</u>	<u>12,138</u>	<u>-</u>	<u>182,804</u>	<u>365,060</u>	<u>182,256</u>
EXPENDITURES												
Current:												
General government	192,463	192,463	163,563	28,900	-	-	-	-	-	-	-	-
Public safety	334,928	334,928	396,424	(61,496)	-	-	-	-	-	-	-	-
Public works	172,219	172,219	152,523	19,696	-	-	-	-	-	-	-	-
Culture and recreation	136,513	136,513	140,758	(4,245)	449,796	449,796	160,190	289,606	-	-	-	-
Public health	1,575	1,575	1,001	574	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	8,000	8,000	-	3,000	-	-	-	-
Debt service:												
Principal	17,941	17,941	33,855	(15,914)	-	-	-	-	-	-	-	-
Interest	4,400	4,400	2,678	1,722	-	-	-	-	-	-	-	-
Capital outlay	65,000	65,000	49,650	15,350	-	-	-	-	-	-	-	-
Total expenditures	<u>925,039</u>	<u>925,039</u>	<u>940,452</u>	<u>(15,413)</u>	<u>457,796</u>	<u>457,796</u>	<u>160,190</u>	<u>297,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over expenditures	<u>(96,000)</u>	<u>(60,000)</u>	<u>(46,531)</u>	<u>44,295</u>	<u>(332,001)</u>	<u>(332,001)</u>	<u>(22,257)</u>	<u>(285,468)</u>	<u>-</u>	<u>182,804</u>	<u>365,060</u>	<u>182,256</u>
OTHER FINANCING SOURCES												
Proceeds from sale of bonds	60,000	60,000	49,650	(10,350)	-	-	-	-	-	-	-	-
Transfers in (out), net	-	-	288,567	(288,567)	-	-	-	-	-	-	-	-
Total other financing sources	<u>60,000</u>	<u>60,000</u>	<u>338,217</u>	<u>(288,917)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures	<u>\$ (36,000)</u>	<u>\$ -</u>	<u>\$ 281,686</u>	<u>\$ (254,822)</u>	<u>\$ (332,001)</u>	<u>\$ (332,001)</u>	<u>\$ (22,257)</u>	<u>\$ (285,468)</u>	<u>\$ -</u>	<u>\$ 182,804</u>	<u>\$ 365,060</u>	<u>\$ 182,256</u>

CITY OF THOMPSON FALLS, MONTANA
 SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
 Year Ended June 30, 2022

	2022	2021	2020	2019	2018
Service cost	\$ -	\$ -	\$ 12,820	\$ 4,520	\$ 4,388
Interest**	-	-	4,075	2,509	2,278
Differences between expected and actual experience	-	-	-	-	-
Changes of assumptions or other inputs	-	-	(146)	-	-
Benefit payments	-	-	(6,081)	(48)	-
Net change in total OPEB liability	-	-	10,668	6,981	6,666
Total OPEB liability - beginning	86,936	86,936	76,268	69,287	62,621
Total OPEB liability - ending	<u>\$ 86,936</u>	<u>\$ 86,936</u>	<u>\$ 86,936</u>	<u>\$ 76,268</u>	<u>\$ 69,287</u>
Covered-employee payroll	\$ 539,640	\$ 539,640	\$ 539,640	\$ 490,224	\$ 475,946
Total OPEB liability as a percentage of its covered-employee payroll		16.11%	16.11%	15.56%	14.56%

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

Notes to Schedule

**Interest includes beginning of year Total OPEB Liability and Service Cost.

Changes of benefit terms:
None

Changes of assumptions:
Revised discount rate per Bond Buyer's 20-year municipal bond rate as of June 30, 2020.

CITY OF THOMPSON FALLS, MONTANA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Year Ended June 30, 2022

Reporting date	PERS							
	2022	2021	2020	2019	2018	2017	2016	2015
Measurement date	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportionate share of the net pension liability as an amount	\$ 304,346	\$ 455,178	\$ 339,294	\$ 306,658	\$ 443,539	\$ 440,537	\$ 348,699	\$ 318,446
Employer's proportionate share of the net pension liability as a percentage	0.013961%	0.015082%	0.014156%	0.012606%	0.020162%	0.023142%	0.022174%	0.022819%
State of MT proportionate share of the net pension liability associated with the Employer	\$ 89,788	\$ 143,560	\$ 110,624	\$ 102,869	\$ 5,976	\$ 5,382	\$ 4,283	\$ 3,889
Total	\$ 394,134	\$ 598,738	\$ 449,918	\$ 409,527	\$ 449,515	\$ 445,919	\$ 352,982	\$ 322,335
Employer's covered payroll	\$ 296,484	\$ 294,857	\$ 267,821	\$ 241,630	\$ 282,507	\$ 309,794	\$ 291,113	\$ 319,200
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	102.65%	154.37%	126.69%	126.91%	157.00%	142.20%	119.76%	99.76%
Plan fiduciary net position as a percentage of the total pension liability	79.91%	68.90%	73.85%	73.47%	73.75%	74.71%	78.40%	78.87%

Reporting date	MPORS							
	2022	2021	2020	2019	2018	2017	2016	2015
Measurement date	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportionate share of the net pension liability as an amount	\$ 191,727	\$ 312,114	\$ 283,242	\$ 193,395	\$ 124,328	\$ 156,942	\$ 135,160	\$ 118,573
Employer's proportionate share of the net pension liability as a percentage	0.1055%	0.1276%	0.1423%	0.1129%	0.0699%	0.0672%	0.0817%	0.0755%
State of MT proportionate share of the net pension liability associated with the Employer	\$ 389,696	\$ 629,504	\$ 576,793	\$ 395,336	\$ 253,401	\$ 311,537	\$ 273,828	\$ 239,531
Total	\$ 581,423	\$ 941,618	\$ 860,025	\$ 588,731	\$ 377,729	\$ 468,479	\$ 408,978	\$ 358,104
Employer's covered payroll	\$ 190,877	\$ 218,597	\$ 234,529	\$ 178,246	\$ 104,502	\$ 123,075	\$ 113,076	\$ 101,246
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	100.44%	142.78%	120.77%	108.50%	118.97%	127.52%	119.52%	117.11%
Plan fiduciary net position as a percentage of the total pension liability	75.76%	64.84%	68.84%	70.95%	68.34%	65.82%	66.90%	67.01%

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

CITY OF THOMPSON FALLS, MONTANA
SCHEDULE OF CONTRIBUTIONS
Year Ended June 30, 2022

Reporting date	PERS							
	2022	2021	2020	2019	2018	2017	2016	2015
Measurement date	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 27,227	\$ 26,274	\$ 25,363	\$ 23,034	\$ 20,466	\$ 23,646	\$ 25,895	\$ 23,989
Plan choice rate required contributions	-	-	-	-	-	-	115	-
Contributions in relation to the contractually required contributions	27,227	26,274	25,363	23,034	20,466	20,935	23,284	21,324
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
Employer's covered payroll	306,143	296,484	294,857	267,821	241,630	282,507	309,794	291,113
Contributions as a percentage of covered payroll	8.89%	8.86%	8.60%	8.60%	8.47%	8.37%	8.40%	8.24%

Reporting date	MPORS							
	2022	2021	2020	2019	2018	2017	2016	2015
Measurement date	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 29,424	\$ 27,724	\$ 31,848	\$ 33,930	\$ 26,660	\$ 15,059	\$ 18,029	\$ 16,391
Contributions in relation to the contractually required contributions	29,424	27,724	31,848	33,930	26,660	15,059	18,029	16,391
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
Employer's covered payroll	202,699	190,877	218,597	234,529	178,246	104,502	123,075	113,076
Contributions as a percentage of covered payroll	14.52%	14.52%	14.57%	14.47%	14.96%	14.41%	14.65%	14.50%

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

CITY OF THOMPSON FALLS, MONTANA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2022

Changes of Benefit Terms - PERS

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

2017:

Working Retiree Limitations

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 .025% to .077%.

Lump-Sum Payouts

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

Disabled PERS Defined Contribution (DC) Members

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

CITY OF THOMPSON FALLS, MONTANA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
Year Ended June 30, 2022

Changes of Benefit Terms – PERS (Continued)

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 2017 experience study:

General Wage Growth*	3.50%
Investment rate of return:	7.65%
*Includes inflation at	2.75%
Merit increase	0.00% to 8.47%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy Members)	For males and females: RP 2000 combined employee and annuitant mortality table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disable Members)	For males and females: RP 2000 combined mortality table, with no projections
Admin Expense as % of payroll	0.30%

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.

Changes of Benefit Terms - MPORS

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

2017:

Working Retiree Limitations

- 1) Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
- 2) Members who return for less than 480 hours in a calendar year:
 - a) May not become an active member in the system; and
 - b) Are subject to a \$1 reduction in their retirement benefit for each \$3 earned in excess of \$5,000 in the calendar year.
- 3) Members who return for 480 or more hours in a calendar year:
 - a) Must become an active member of the system;
 - b) Will stop receiving a retirement benefit from the system; and
 - c) Will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.

CITY OF THOMPSON FALLS, MONTANA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
Year Ended June 30, 2022

Changes of Benefit Terms – MPORS (Continued)

Working Retiree Limitations (Continued)

- 4) Employee, employer and state contributions, if any, apply as follows:
 - a) Employer contributions and state contributions (if any) must be paid on all working retirees;
 - b) Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.

Second Retirement Benefit

- 1) Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
- 2) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - a) Is not awarded service credit for the period of reemployment;
 - b) Is refunded the accumulated contributions associated with the period of reemployment;
 - c) Starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - d) Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
- 3) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - a) Is awarded service credit for the period of reemployment;
 - b) Starting the first month following termination of service, receives:
 - i. The same retirement benefit previously paid to the member, and
 - ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
 - c) Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - i. On the initial retirement benefit in January immediately following second retirement, and
 - ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- 4) A member who returns to covered service is not eligible for a disability benefit.

CITY OF THOMPSON FALLS, MONTANA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 Year Ended June 30, 2022

Changes of Benefit Terms – MPORS (Continued)

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 rather than the present value of the member's benefit.

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 30, 2018 actuarial valuation:

General Wage Growth*	3.50%
Investment rate of return:	7.65%
*Includes inflation at	2.75%
Merit salary increase	0.00% to 6.60%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy Members)	For males and females: RP 2000 combined employee and annuitant mortality table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled Members)	For males and females: RP 2000 combined mortality table
Admin Expense as % of payroll	0.15%

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.

SUPPLEMENTARY INFORMATION

CITY OF THOMPSON FALLS, MONTANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

Federal Grantor/Program or Cluster Title	Federal AL Number	Pass-Through Grant ID No.	Federal Expenditures	Passed Through to Subrecipients
US Environmental Protection Agency				
<i>Passed through the Department of Natural Resources:</i>				
<i>Drinking Water State Revolving Fund Cluster-Cluster</i>				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Loan	\$ 273,468	\$ -
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Loan	<u>227,028</u>	<u>-</u>
<i>Total Drinking Water State Revolving Fund Cluster-Cluster</i>			<u>500,496</u>	<u>-</u>
<i>Total United States Environmental Protection Agency</i>			<u>500,496</u>	<u>-</u>
US Department of the Treasury				
Coronavirus Relief Fund	21.019		<u>132,296</u>	<u>-</u>
US Department of Agriculture				
<i>Passed through the Department of Natural Resources:</i>				
		Wastewater FY18		
Water and Waste Disposal Systems for Rural Communities	10.760	Phase 1 & 2	4,073,202	
Water and Waste Disposal Systems for Rural Communities	10.760	Series 2021B & D	1,558,000	-
Water and Waste Disposal Systems for Rural Communities	10.760	Series 2022A & C	3,274,000	-
Water and Waste Disposal Systems for Rural Communities	10.760	RRGL	<u>67,040</u>	<u>-</u>
<i>Total Water and Waste Disposal Systems for Rural Communities</i>			<u>8,972,242</u>	<u>-</u>
<i>Total United States Department of Agriculture</i>			<u>8,972,242</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 9,605,034</u>	<u>\$ -</u>

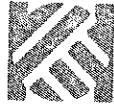
CITY OF THOMPSON FALLS, MONTANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Thompson Falls, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Guidance Administrative Requirements, Subpart E Cost Principles*. Accordingly, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE 2. INDIRECT COSTS

The City did not elect to use the 10% de minimis indirect cost rate from Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Guidance Administrative Requirements, Subpart # Cost Principles*.



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

To the City Council and the Mayor
City of Thompson Falls
Thompson Falls, Montana

We have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Thompson Falls, Montana (the City), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 14, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items #2022-001 – #2022-002 that we consider to be material weaknesses.

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

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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; accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as #2022-001.

City of Thompson Falls' Response to Findings

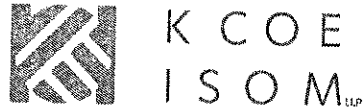
The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

KCae Team, LLP

May 14, 2024
Billings, Montana



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

To the City Council and the Mayor
City of Thompson Falls
Thompson Falls, Montana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Thompson Falls' (the City) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance requirements referred to above.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Report on Internal Control over Compliance

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

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

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

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

KCae Team, LLP

May 14, 2024
Billings, Montana

CITY OF THOMPSON FALLS, MONTANA
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered material weaknesses?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None reported

Type of auditors' report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
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Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>AL Number</u>
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Water and Waste Disposal Systems for Rural Communities	10.760
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Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
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Auditee qualified as low-risk auditee?	No
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Section II – Financial Statement Findings

#2022-001 Accounting and Financial Reporting

Condition: The City was out of compliance with the fiscal year 2022 Annual Financial Report and Financial and Compliance Audit submission deadlines. The City's fiscal year 2022 Annual Financial Report was required to be submitted to the Department of Administration, Local Government Service Bureau by December 31, 2022, and it was submitted until July, 2023. The fiscal year 2022 audit report was required to be submitted to the Local Government Services Bureau by March 31, 2023, but was not submitted until 2024.

CITY OF THOMPSON FALLS, MONTANA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

#2022-001 Accounting and Financial Reporting (Continued)

Criteria: Montana Code Annotated (MCA) 2-7-503 requires that local government entities submit an Annual Financial Report in the form prescribed by the Montana Department of Administration, Local Government Services Bureau, within six months following the fiscal year end. MCA 7-6-611 requires that the audit report be submitted to the Local Government Services Bureau within 9 months of the end if subject to a Single Audit.

Cause: Management needed additional time to perform the City's year-end close and reporting functions caused by delays in the 2021 audited financial statements from the auditors.

Effect: The City was out of compliance with MCA 2-7-503 and MCA 7-6-611.

Recommendation: We recommend that management strive to complete the year-end financial close and reporting in a timely manner to comply with the submission deadline requirement for the Annual Financial Report. We also understand that the COVID-19 pandemic caused delays for both the City and the auditor.

Planned Corrective Action: See Management's planned corrective action on the attached corrective action plan.

#2022-002 Financial Close and Reporting

Condition: Certain year-end closing and reconciling procedures had not been performed which resulted in material audit adjustments for DNRC grant revenue and long-term debt, pension expenses and liabilities.

Criteria: Internal control policies and procedures should be in place and followed for financial reporting that includes review of the financial statements and related disclosures for completeness, consistency, and accuracy. This includes procedures of reconciling the general ledger to underlying supporting documents.

Cause: There is a lack of internal control policies and procedures over financial close and reconciliation.

Effect: Multiple accounts listed above required material audit adjustments to ensure the financial statements were fairly stated.

CITY OF THOMPSON FALLS, MONTANA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
Year Ended June 30, 2022

Section II – Financial Statement Findings (Continued)

#2022-002 Financial Close and Reporting (Continued)

Recommendation: We recommend that management establish and follow internal policies and procedures for year-end financial close and reconciliation.

**Planned
Corrective Action:** See Management's planned corrective action on the attached corrective action plan.

Section III – Federal Award Finding

None.

CITY OF THOMPSON FALLS, MONTANA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2022

#2021-001 – Accounting and Financial Reporting – repeat #2022-001.

#2021-002 – Financial Close and Reporting – repeat #2022-002.

#2021-003 – Preparation of the Schedule of Federal Awards – Implemented

#2021-004 – Written Policies, Procedures and Standards of Conduct CFDA#10.760 and all Federal Grants – Implemented.

City of Thompson Falls



<u>Mayor</u> Rusti Leivestad	<u>City Attorney</u> Timothy Goen	<u>Ward I</u> Larry Lack Raoul Ribeiro, Pres.	<u>Ward II</u> Katherine Mandrone Earlene Powell	<u>Ward III</u> Hayley Allen-Blakney, VP Shawni Vaught
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May 14, 2024

Montana Department of Administration
Local Government Services Bureau
Federal Building, 301 S. Park Ave, Room 340
PO Box 200547
Helena, MT 59620-0547

RE: Thompson Falls FY 2022 Audit


A copy of the Thompson Falls FY 2022 audit was sent to your office. There were two reportable conditions on the audit.

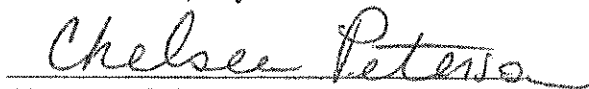
2022-001 Accounting and Financial Reporting – The City’s management continues to work on a plan to ensure that the AFR is completed promptly to comply with the submission deadline requirement for the AFR and Audit report. The COVID-19 pandemic caused delays for the auditor and, consequently, the city for the FY22 Audit and FY22 AFR. The city prepared the FY23 AFR to meet the deadline of December 31, 2023. Fiscal Year FY22 was just completed, and the FY2023 Audit will be complete in July 2024.

2022-002 Financial Close and Reporting - The City’s management continues to work to ensure that all Financial Close and Reporting is done correctly. The City’s management does not agree to the suggested Journal Vouchers and will work with the new Auditors to confirm this.

Please let me know if you have questions about the audit or this response.

Sincerely,


Rusti Leivestad, Mayor


ATTEST: Chelsea Peterson, City Clerk/Treasurer