



Annual Financial Report

City of Montgomery
Montgomery, Minnesota

For the year ended December 31, 2021



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City of Montgomery, Minnesota
Annual Financial Report
Table of Contents
For the Year Ended December 31, 2021

	<u>Page No.</u>
Introductory Section	
Elected and Appointed Officials	9
Financial Section	
Independent Auditor's Report	13
Management's Discussion and Analysis	17
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds	
Balance Sheet	36
Reconciliation of the Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures and Changes in Fund Balances	38
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	39
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	40
Proprietary Funds	
Statement of Net Position	41
Statement of Revenues, Expenses and Changes in Net Position	42
Statement of Cash Flows	43
Notes to the Financial Statements	45
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	76
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	76
Notes to the Required Supplementary Information - General Employees Retirement Fund	77
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - Public Employees Police and Fire Fund	79
Schedule of Employer's Public Employees Retirement Association Contributions - Public Employees Police and Fire Fund	79
Notes to the Required Supplementary Information - Public Employees Police and Fire Fund	80
Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios	82
Notes to the Required Supplementary Information - Fire Relief Association	82
Schedule of Employer's Fire Relief Associations Contributions	83

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City of Montgomery, Minnesota
Annual Financial Report
Table of Contents (Continued)
For the Year Ended December 31, 2021

	<u>Page No.</u>
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	86
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	87
Nonmajor Special Revenue Funds	
Combining Balance Sheet	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	90
Schedule of Revenue, Expenditures and Changes in Fund Balance -	
Budget and Actual - Ambulance Fund	93
Nonmajor Capital Projects Funds	
Combining Balance Sheet	94
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	96
General Fund	
Comparative Balance Sheets	98
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	99
Debt Service Funds	
Combining Balance Sheet	102
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	103
Summary Financial Report	
Revenues and Expenditures for General Operations - Governmental Funds	104
Other Required Reports	
Independent Auditor's Report	
on Minnesota Legal Compliance	107
Independent Auditor's Report on Internal Control Over Financial	
Reporting and on Compliance and Other Matters Based on	
an Audit of Financial Statements Performed in Accordance	
with <i>Government Auditing Standards</i>	108
Schedule of Findings and Responses	110

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INTRODUCTORY SECTION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Montgomery, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2021

ELECTED

Name	Title	Term Expires
Thomas Eisert	Mayor	12/31/2022
Mick McGuire	Council	12/31/2022
Joy Svoboda (1/1/2021 - 11/30/2021)	Council	12/31/2022
Dennis Lambrecht (11/30/2021 - 12/31/2022)	Council	12/31/2022
Brad "Butch" Kubes	Council	12/31/2022
Bob Forcelle	Council	12/31/2024

APPOINTED

Brian Heck	City Administrator
Patricia Soukup	Clerk/Treasurer

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FINANCIAL SECTION
CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Montgomery, Minnesota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montgomery, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Montgomery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Montgomery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Montgomery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules and are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2022 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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Mankato, Minnesota
March 24, 2022



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Management's Discussion and Analysis

As management of the City of Montgomery, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2021.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,595,690 (net position). Of this amount there is a deficit of \$1,595,042, which represents unrestricted net position funds that may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased \$1,850,423 compared to an increase of \$942,605 in the prior year. The current year increase is largely attributable to an increase of special assessments collected relating to the 2021 street project along with an increase in ambulance collections and a decrease in operating expenditures for the sewer utility fund.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,549,909, an increase of \$1,375,394 in comparison with the prior year due to the issuance of new debt for the 2021 street project along with the increase in special assessment collections and ambulance charges for services collections. The unassigned fund balance is \$238,033. The remainder of fund balance \$4,311,876 is not available for new spending because it is either 1) nonspendable (\$58,192), 2) restricted (\$3,019,512), or 3) committed (\$1,106,291) for the purposes described in the fund balance section of each balance sheet.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 reflects how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

Figure 1
Required Components of the
City's Annual Financial Report

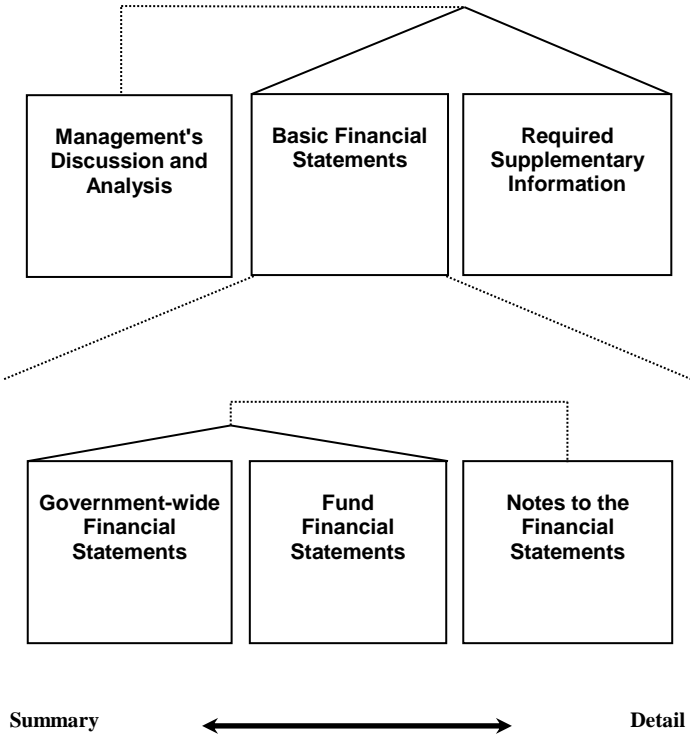


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private businesses, such as the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation, economic development, miscellaneous and interest on long-term debt. The business-type activities of the City include water utility, sewer utility and storm sewer utility.

The government-wide financial statements can be found starting on page 31 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 25 individual governmental funds, which includes multiple Debt Service funds, which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Debt Service fund, the Capital Projects fund and the 2021 Street Improvements fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund and Ambulance fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 36 of this report.

Proprietary Funds. The City maintains one type of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary funds financial statements can be found starting on page 41 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 45 of this report.

Required Supplementary Information. This report presents certain required supplementary information concerning the City's share of net pension liabilities (assets) for defined benefits plans and schedules of contributions starting on page 76 of this report. The City has disclosed this information in Notes 4 and 5 to the financial statements and as separate required supplementary information.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found starting on page 86 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources by \$16,595,690 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (72.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Montgomery's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Assets						
Current and						
Other Assets	\$ 5,936,747	\$ 3,974,827	\$ 1,961,920	\$ 1,639,006	\$ 1,087,112	\$ 551,894
Capital Assets	7,491,661	5,899,485	1,592,176	15,678,307	14,521,805	1,156,502
Total Assets	13,428,408	9,874,312	3,554,096	17,317,313	15,608,917	1,708,396
Deferred Outflows of Resources	1,055,619	627,533	428,086	103,759	38,663	65,096
Liabilities						
Noncurrent Liabilities	5,699,373	3,648,911	2,050,462	7,660,291	6,788,962	871,329
Other Liabilities	447,866	279,736	168,130	172,750	115,448	57,302
Total Liabilities	6,147,239	3,928,647	2,218,592	7,833,041	6,904,410	928,631
Deferred Inflows of Resources	1,224,272	560,550	663,722	104,857	10,551	94,306
Net Position						
Net Investment In						
Capital Assets	3,456,886	3,359,387	97,499	8,568,504	7,949,321	619,183
Restricted						
Debt Service	2,414,877	1,994,666	420,211	-	-	-
Economic Development	11,105	8,605	2,500	-	-	-
Equipment Replacement	280,579	292,125	(11,546)	-	-	-
Park Improvements	81,000	-	81,000	-	-	-
Street Improvements	49,708	-	49,708	-	-	-
Tax Increment Financing	5,330	5,694	(364)	-	-	-
Police Operations	3,369	-	3,369	-	-	-
Crime Prevention	1,409	605	804	-	-	-
Unrestricted	808,253	351,566	456,687	914,670	783,298	131,372
Total Net Position	\$ 7,112,516	\$ 6,012,648	\$ 1,099,868	\$ 9,483,174	\$ 8,732,619	\$ 750,555

An additional portion of the City's net position (17.2 percent) represents resources that are subject to external restrictions on how they may be used. The *unrestricted net position*, (10.4 percent deficit), represents funds that may be used to meet the City's ongoing obligations to citizens and creditors.

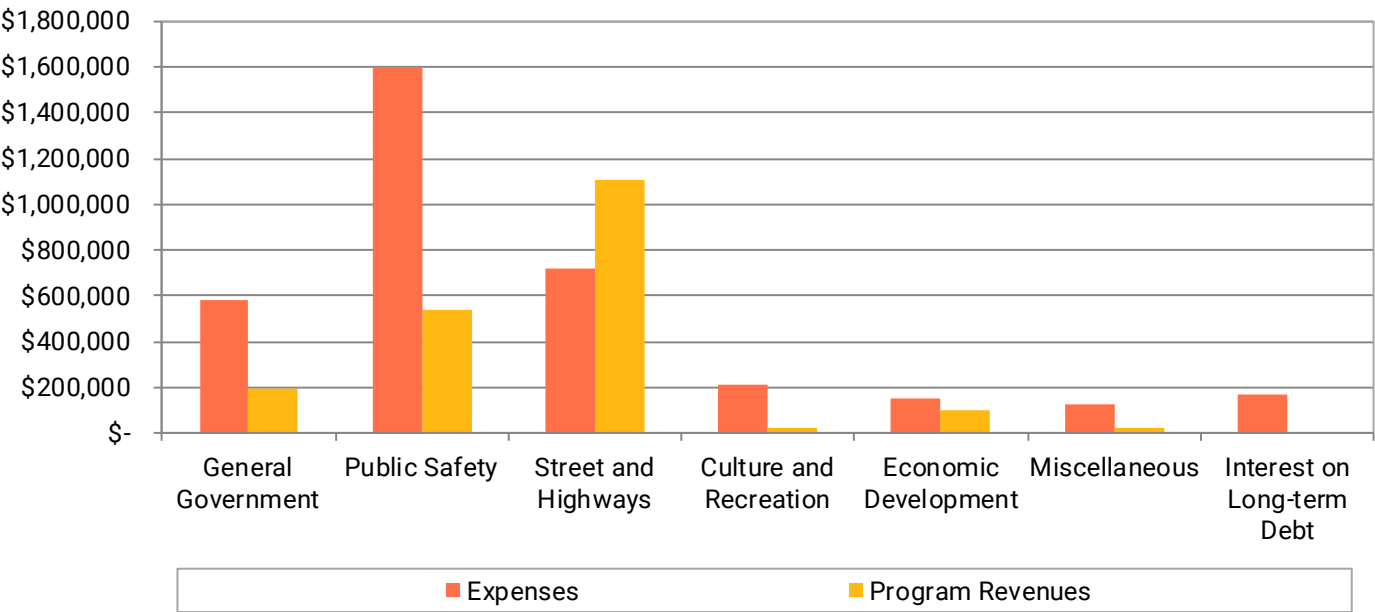
Governmental Activities. Governmental activities increased the City's net position by \$1,099,868. Key elements of this increase are as follows:

City of Montgomery's Changes in Net Position

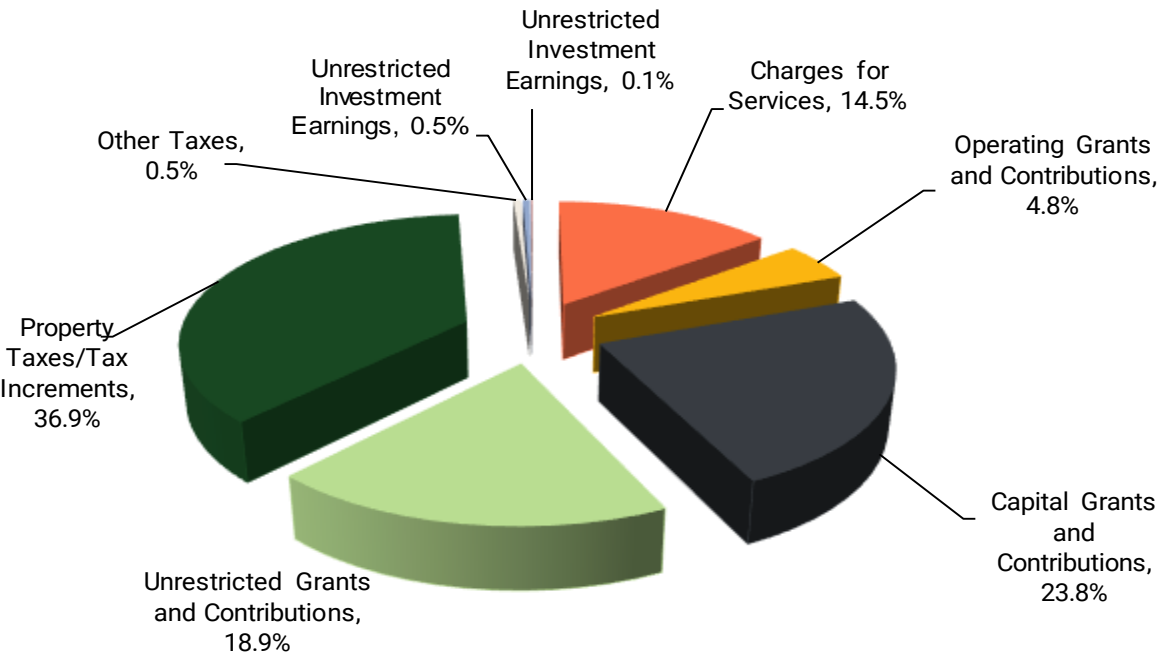
	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 663,782	\$ 522,110	\$ 141,672	\$ 2,144,933	\$ 2,209,212	\$ (64,279)
Operating grants and contributions	225,146	256,833	(31,687)	89,909	396	89,513
Capital grants and contributions	1,106,680	331,741	774,939	271,562	346,244	(74,682)
General revenues						
Property taxes/tax increments	1,721,585	1,646,660	74,925	-	-	-
Other taxes	23,192	24,355	(1,163)	-	-	-
Grants and contributions not restricted to specific programs	876,914	850,490	26,424	-	-	-
Unrestricted investment earnings	6,214	16,327	(10,113)	3,223	9,438	(6,215)
Gain on sale of assets	24,099	-	24,099	-	-	-
Total Revenues	<u>4,647,612</u>	<u>3,648,516</u>	<u>999,096</u>	<u>2,509,627</u>	<u>2,565,290</u>	<u>(55,663)</u>
Expenses						
General government	580,238	706,914	(126,676)	-	-	-
Public safety	1,596,652	1,536,197	60,455	-	-	-
Streets and highways	719,573	851,517	(131,944)	-	-	-
Culture and recreation	211,992	142,041	69,951	-	-	-
Economic development	147,960	182,723	(34,763)	-	-	-
Miscellaneous	124,302	36,844	87,458	-	-	-
Interest on long-term debt	167,027	65,863	101,164	-	-	-
Water utility	-	-	-	757,186	670,172	87,014
Sewer utility	-	-	-	758,955	922,593	(163,638)
Storm water utility	-	-	-	242,931	156,337	86,594
Total Expenses	<u>3,547,744</u>	<u>3,522,099</u>	<u>25,645</u>	<u>1,759,072</u>	<u>1,749,102</u>	<u>9,970</u>
Changes in Net Position	1,099,868	126,417	973,451	750,555	816,188	(65,633)
Net Position - January 1	<u>6,012,648</u>	<u>5,886,231</u>	<u>126,417</u>	<u>8,732,619</u>	<u>7,916,431</u>	<u>816,188</u>
Net Position - December 31	<u>\$ 7,112,516</u>	<u>\$ 6,012,648</u>	<u>\$ 1,099,868</u>	<u>\$ 9,483,174</u>	<u>\$ 8,732,619</u>	<u>\$ 750,555</u>

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities



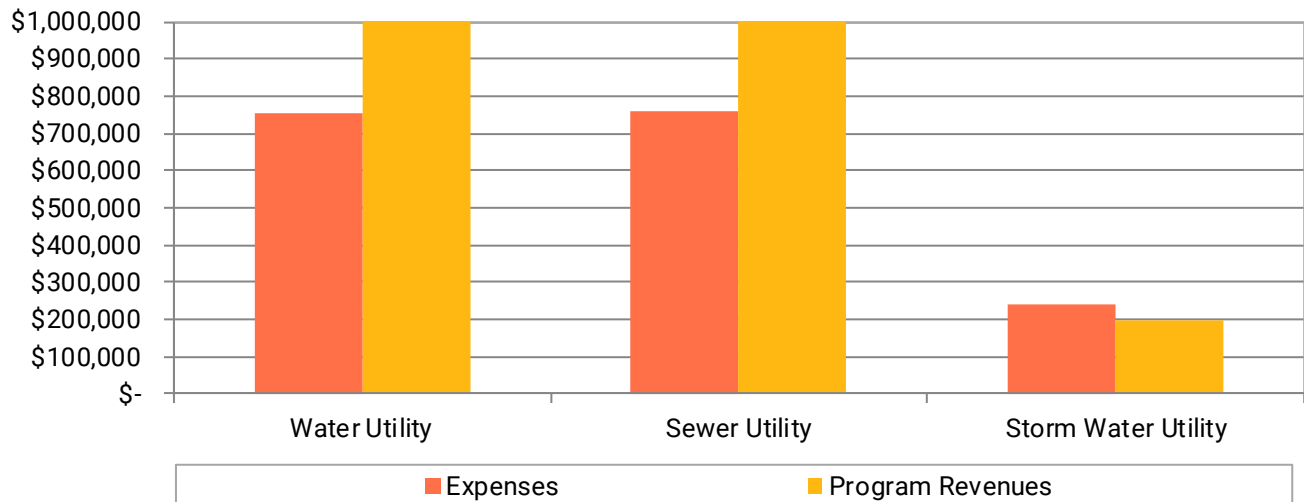
Revenues by Source - Governmental Activities



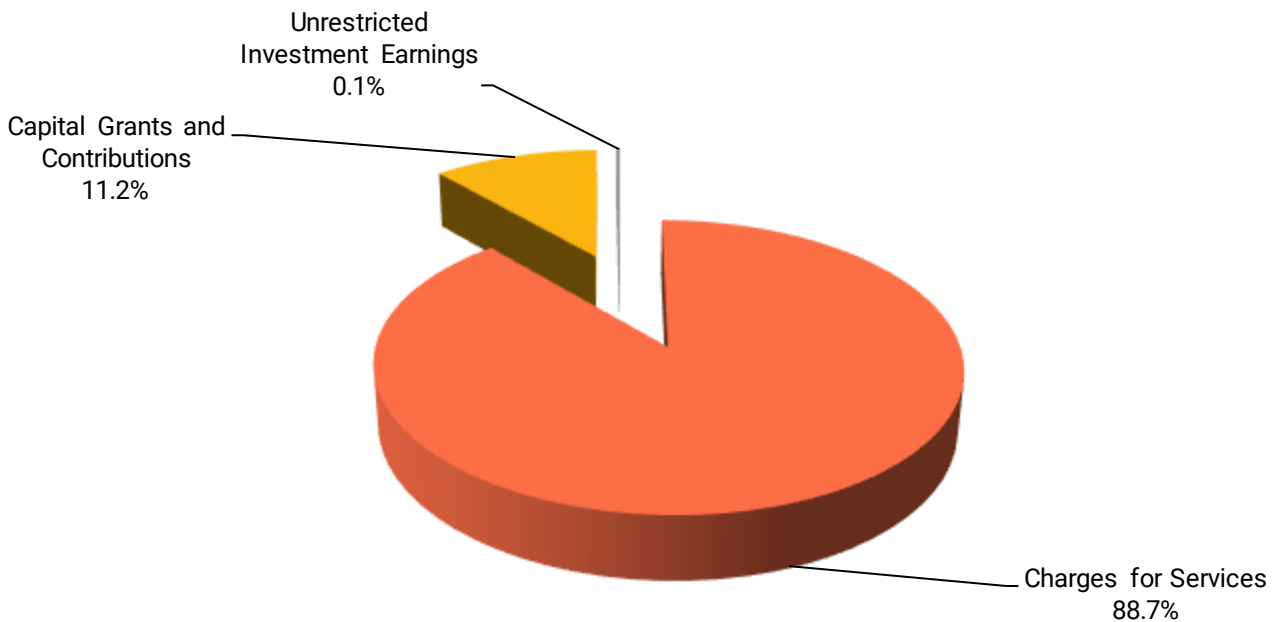
Business-type Activities. Business-type activities increased the City's net position by \$750,555. Key elements of this increase are as follows:

- The increase in total revenues continue to exceed expenses in current year with a significant decrease noted in current year sewer utility expenditures of \$165,512. This can be attributed to not needing as many repairs and maintenance during the year as well as no sludge removal costs in 2021.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$839,689. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents (31.5) percent of fund expenditures, while total fund balance represents (33.8) percent of that same amount.

The fund balance of the City's General fund decreased by \$54,926 during the current fiscal year mainly due to an increase in public safety and culture and recreation expenditures of \$60,097 and \$61,976 respectively.

The *Debt Service fund* has a total fund balance of \$1,708,572, all of which is restricted for the payment of debt. The net decrease in fund balance during the current year in the Debt Service fund was \$22,312 which is mainly attributable to the budgeted use of available fund balance.

The *Capital Projects fund* has a total fund balance deficit of \$495,600 which was reduced by \$238,048 with a transfer from debt service funds.

The *2021 Street Improvements fund* has a total fund balance of \$878,440 which is to be used for capital improvements. Costs during the year were \$1,994,256 which were funded by a bond issuance during the year.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$914,670. The total increase in net position for the funds was \$750,555. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General fund budgeted for a balanced budget in 2021. Revenues were over expectations by \$139,760, expenditures were over budget by \$103,686 and transfers out were over budget by \$91,000, causing a decrease in fund balance of \$54,926 in 2021.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2021, amounts to \$23,169,968 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 13.5 percent (a 6.2 percent increase for governmental activities and a 3.3 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction in progress on the 2021 street project totaled \$3,737,152.
- The completion of the 2020 street project with total project cost of \$372,519.
- The completion of the public works freightliner plow truck in the amount of \$220,978.
- The purchase of turnout gear for the fire department in the amount of \$96,015.
- The installation of the water treatment plant roof for \$64,032.
- The purchase of the hockey rink for \$35,000.

Additional information on the City's capital assets can be found in Note 3C starting on page 56 of this report.

City of Montgomery's Capital Assets (Net of Depreciation)

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Land	\$ 782,325	\$ 782,325	\$ -	\$ 428,414	\$ 428,414	\$ -
Buildings	981,691	1,021,800	(40,109)	6,840,625	7,072,313	(231,688)
Improvement Other than Building	235,950	249,529	(13,579)	-	-	-
Machinery and Equipment	326,592	237,822	88,770	92,212	95,035	(2,823)
Infrastructure	2,683,142	2,526,385	156,757	6,631,431	6,886,028	(254,597)
Vehicles	402,210	231,147	171,063	4,350	-	4,350
Construction in progress	2,079,751	850,477	-	1,681,275	40,015	-
Total	<u>\$ 7,491,661</u>	<u>\$ 5,899,485</u>	<u>\$ 362,902</u>	<u>\$ 15,678,307</u>	<u>\$ 14,521,805</u>	<u>\$ (484,758)</u>

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$11,953,043. Of this amount, \$4,190,100 is special assessment debt, \$7,322,943 is general obligation revenue debt, \$440,000 is revenue debt and \$153,709 in notes. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Montgomery's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
G.O. Improvement Bonds	\$ 4,190,100	\$ 1,779,200	\$ 2,410,900	\$ -	\$ -	\$ -
General Obligation Revenue Bonds	-	-	-	7,322,943	6,464,843	858,100
Revenue Bonds	440,000	520,000	(80,000)	-	-	-
Notes	153,709	199,605	(45,896)	-	-	-
Total	\$ 4,783,809	\$ 2,498,805	\$ 2,285,004	\$ 7,322,943	\$ 6,464,843	\$ 858,100

The City's total debt increased by \$3,143,104, or 35.1 percent during the current fiscal year. The key factor in this increase was the issuance of new debt in the amount of \$4,810,000 to cover the costs of the 2021 street improvement project, offset by the retirement of principal in the amount of \$1,621,000.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$7,018,179. The City currently has no debt subject to this limitation.

Additional information on the City's long-term debt can be found in Note 3F starting on page 59 this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Le Sueur County is currently 4.3 percent, which has decreased from 6.1 in prior year. This compares unfavorably to the State's average unemployment rate of 2.7 percent and to the national average rate of 3.7 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the City's budget for the 2022 fiscal year.

The general property tax levy increased 7.8 percent in 2022 over the 2021 levy.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, City of Montgomery, 201 Ash Avenue Southwest, Montgomery, Minnesota 56069.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Montgomery, Minnesota

Statement of Net Position

December 31, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 4,652,470	\$ 1,416,292	\$ 6,068,762
Receivables			
Delinquent taxes	29,283	-	29,283
Accounts, net of allowances	119,656	200,663	320,319
Notes, net of allowance	6,709	-	6,709
Special assessments	947,222	-	947,222
Intergovernmental	101,319	4,160	105,479
Prepaid items	58,192	17,891	76,083
Pension asset	21,896	-	21,896
Capital assets			
Nondepreciable assets	2,862,076	2,109,689	4,971,765
Depreciable assets, net of accumulated depreciation	4,629,585	13,568,618	18,198,203
Total Assets	<u>13,428,408</u>	<u>17,317,313</u>	<u>30,745,721</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>1,055,619</u>	<u>103,759</u>	<u>1,159,378</u>
Liabilities			
Accounts payable	278,988	89,682	368,670
Due to other governments	607	-	607
Accrued interest payable	59,429	77,967	137,396
Accrued salaries payable	31,636	5,101	36,737
Unearned revenue	77,206	-	77,206
Noncurrent liabilities			
Due within one year			
Long-term liabilities	343,364	1,171,131	1,514,495
Due in more than one year			
Long-term liabilities	4,755,619	6,353,337	11,108,956
Net pension liability	600,390	135,823	736,213
Total Liabilities	<u>6,147,239</u>	<u>7,833,041</u>	<u>13,980,280</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>1,224,272</u>	<u>104,857</u>	<u>1,329,129</u>
Net Position			
Net investment in capital assets	3,456,886	8,568,504	12,025,390
Restricted			
Debt service	2,414,877	-	2,414,877
Economic development	11,105	-	11,105
Equipment replacement	280,579	-	280,579
Park dedication	81,000	-	81,000
Street improvements	49,708	-	49,708
Tax increment financing	5,330	-	5,330
Police operations	3,369	-	3,369
Crime prevention	1,409	-	1,409
Unrestricted	<u>808,253</u>	<u>914,670</u>	<u>1,722,923</u>
Total Net Position	<u>\$ 7,112,516</u>	<u>\$ 9,483,174</u>	<u>\$ 16,595,690</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Activities
For the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 580,238	\$ 197,929	\$ 788	\$ -
Public safety	1,596,652	337,993	112,962	90,034
Streets and highways	719,573	34,881	79,619	994,376
Culture and recreation	211,992	2,177	-	22,270
Economic development	147,960	69,769	31,777	-
Miscellaneous	124,302	21,033	-	-
Interest and other costs	167,027	-	-	-
Total Governmental Activities	<u>3,547,744</u>	<u>663,782</u>	<u>225,146</u>	<u>1,106,680</u>
Business-type Activities				
Water utility	757,186	1,000,082	72,124	127,562
Sewer utility	758,955	949,599	17,723	144,000
Storm water utility	242,931	195,252	62	-
Total Business-type Activities	<u>1,759,072</u>	<u>2,144,933</u>	<u>89,909</u>	<u>271,562</u>
Total Primary Government	<u>\$ 5,306,816</u>	<u>\$ 2,808,715</u>	<u>\$ 315,055</u>	<u>\$ 1,378,242</u>

General Revenues

Property taxes, levied for general purposes
Property taxes, levied for debt service
Tax increments
Payment in lieu of taxes
Franchise taxes
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Gain on sale of capital assets
Total General Revenues

Change in Net Position

Net Position, January 1

Net Position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (381,521)		\$ (381,521)
(1,055,663)		(1,055,663)
389,303		389,303
(187,545)		(187,545)
(46,414)		(46,414)
(103,269)		(103,269)
(167,027)		(167,027)
<u>(1,552,136)</u>		<u>(1,552,136)</u>
	\$ 442,582	442,582
	352,367	352,367
	<u>(47,617)</u>	<u>(47,617)</u>
	<u>747,332</u>	<u>747,332</u>
<u>(1,552,136)</u>	<u>747,332</u>	<u>(804,804)</u>
1,496,582	-	1,496,582
189,216	-	189,216
35,787	-	35,787
1,509	-	1,509
21,683	-	21,683
876,914	-	876,914
6,214	3,223	9,437
24,099	-	24,099
<u>2,652,004</u>	<u>3,223</u>	<u>2,655,227</u>
1,099,868	750,555	1,850,423
<u>6,012,648</u>	<u>8,732,619</u>	<u>14,745,267</u>
<u>\$ 7,112,516</u>	<u>\$ 9,483,174</u>	<u>\$ 16,595,690</u>

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Montgomery, Minnesota

Balance Sheet
Governmental Funds
December 31, 2021

	General	Debt Service	Capital Projects	2021 Street Improvements	Other Governmental Funds	Total
Assets						
Cash and temporary investments	\$ 766,288	\$ 1,708,572	\$ (495,600)	\$ 1,006,054	\$ 1,667,156	\$ 4,652,470
Receivables						
Delinquent taxes	29,283	-	-	-	-	29,283
Accounts, net of allowances	-	-	-	-	119,656	119,656
Notes, net of allowance	-	-	-	-	6,709	6,709
Special assessments	26,643	765,734	-	-	154,845	947,222
Intergovernmental	101,319	-	-	-	-	101,319
Prepaid items	55,635	-	-	-	2,557	58,192
Total Assets	<u>\$ 979,168</u>	<u>\$ 2,474,306</u>	<u>\$ (495,600)</u>	<u>\$ 1,006,054</u>	<u>\$ 1,950,923</u>	<u>\$ 5,914,851</u>
Liabilities						
Accounts payable	\$ 59,590	\$ -	\$ -	\$ 127,614	\$ 91,784	\$ 278,988
Due to other governments	607	-	-	-	-	607
Accrued salaries payable	23,356	-	-	-	8,280	31,636
Unearned revenue	-	-	-	-	77,206	77,206
Total Liabilities	<u>83,553</u>	<u>-</u>	<u>-</u>	<u>127,614</u>	<u>177,270</u>	<u>388,437</u>
Deferred Inflows of Resources						
Unavailable revenue						
Delinquent taxes	29,283	-	-	-	-	29,283
Special assessments	26,643	765,734	-	-	154,845	947,222
Total Deferred Inflows of Resources	<u>55,926</u>	<u>765,734</u>	<u>-</u>	<u>-</u>	<u>154,845</u>	<u>976,505</u>
Fund Balances						
Nonspendable	55,635	-	-	-	2,557	58,192
Restricted	-	1,708,572	-	878,440	432,500	3,019,512
Committed	-	-	-	-	1,234,172	1,234,172
Unassigned	784,054	-	(495,600)	-	(50,421)	238,033
Total Fund Balances	<u>839,689</u>	<u>1,708,572</u>	<u>(495,600)</u>	<u>878,440</u>	<u>1,618,808</u>	<u>4,549,909</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 979,168</u>	<u>\$ 2,474,306</u>	<u>\$ (495,600)</u>	<u>\$ 1,006,054</u>	<u>\$ 1,950,923</u>	<u>\$ 5,914,851</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
December 31, 2021

	<u>Primary Government</u>
Amounts reported for governmental activities in the statement of net position are different because	
Total Fund Balances - Governmental Funds	\$ 4,549,909
Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	7,491,661
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Compensated absences payable	(185,768)
Bonds payable	(4,630,100)
Bond premiums, net of accumulated amortization	(129,406)
Net pension liability	(578,494)
Notes payable	(153,709)
Long-term assets are not available to pay current-period expenditures and, therefore, are delayed in the funds.	
Delinquent taxes receivable	29,283
Special assessments receivable	947,222
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	1,055,619
Deferred inflows of pension resources	(1,224,272)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(59,429)</u>
Total Net Position - Governmental Activities	<u><u>\$ 7,112,516</u></u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2021

	General	Debt Service	Capital Projects	2021 Street Improvements	Other Governmental Funds	Total
Revenues						
Taxes	\$ 1,497,770	\$ 189,216	\$ -	\$ -	\$ 57,470	\$ 1,744,456
Special assessments	-	513,174	-	-	35,092	548,266
Licenses and permits	174,847	-	-	-	-	174,847
Intergovernmental	1,004,866	-	-	-	84,342	1,089,208
Charges for services	98,702	-	-	-	221,722	320,424
Fines and forfeits	25,638	-	-	-	3,369	29,007
Investment earnings	2,011	2,538	462	245	958	6,214
Miscellaneous	63,568	20,000	-	-	196,577	280,145
Total Revenues	<u>2,867,402</u>	<u>724,928</u>	<u>462</u>	<u>245</u>	<u>599,530</u>	<u>4,192,567</u>
Expenditures						
Current						
General government	563,606	-	-	-	-	563,606
Public safety	1,229,802	-	-	-	249,211	1,479,013
Streets and highways	420,694	-	-	13,614	-	434,308
Culture and recreation	134,981	-	-	-	721	135,702
Economic development	9,701	-	-	-	137,299	147,000
Miscellaneous	90,816	-	-	-	33,486	124,302
Capital outlay						
General government	3,021	-	-	-	501	3,522
Public safety	12,464	-	-	-	180,074	192,538
Streets and highways	3,333	-	-	1,906,489	47,958	1,957,780
Culture and recreation	12,910	-	-	-	31,510	44,420
Debt service						
Principal	5,000	489,100	-	-	40,896	534,996
Interest and other	-	59,960	-	74,153	6,727	140,840
Total Expenditures	<u>2,486,328</u>	<u>549,060</u>	<u>-</u>	<u>1,994,256</u>	<u>728,383</u>	<u>5,758,027</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>381,074</u>	<u>175,868</u>	<u>462</u>	<u>(1,994,011)</u>	<u>(128,853)</u>	<u>(1,565,460)</u>
Other Financing Sources (Uses)						
Sale of capital assets	-	-	-	-	28,997	28,997
Bond proceeds	-	39,406	-	2,780,594	-	2,820,000
Premium on bonds issued	-	-	-	91,857	-	91,857
Transfers in	-	-	237,586	-	436,000	673,586
Transfers out	(436,000)	(237,586)	-	-	-	(673,586)
Total Other Financing Sources (Uses)	<u>(436,000)</u>	<u>(198,180)</u>	<u>237,586</u>	<u>2,872,451</u>	<u>464,997</u>	<u>2,940,854</u>
Net Change in Fund Balances	(54,926)	(22,312)	238,048	878,440	336,144	1,375,394
Fund Balances, January 1	894,615	1,730,884	(733,648)	-	1,282,664	3,174,515
Fund Balances, December 31	<u>\$ 839,689</u>	<u>\$ 1,708,572</u>	<u>\$ (495,600)</u>	<u>\$ 878,440</u>	<u>\$ 1,618,808</u>	<u>\$ 4,549,909</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Reconciliation of the Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2021

	<u>Primary Government</u>
Amounts reported for governmental activities in the statement of activities are different because	
Net Change in Fund Balances - Governmental Funds	\$ 1,375,394
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense.	
Capital outlay	1,935,021
Depreciation expense	(337,947)
The net effect of various miscellaneous transactions involving capital assets	
Disposal of capital assets	(4,898)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal repayments	534,996
Debt issued or incurred	(2,820,000)
Premium on bonds issued, net of amortization expense	(88,113)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(29,931)
Long-term pension activity is not reported in governmental funds.	
Negative pension expense	115,490
Direct aid contributions	6,841
Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.	
Special assessments	426,110
Property taxes	321
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	<u>(13,416)</u>
Change in Net Position - Governmental Activities	<u>\$ 1,099,868</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,509,762	\$ 1,509,762	\$ 1,497,770	\$ (11,992)
Licenses and permits	96,820	96,820	174,847	78,027
Intergovernmental	985,118	985,118	1,004,866	19,748
Charges for services	74,792	74,792	98,702	23,910
Fines and forfeits	16,500	16,500	25,638	9,138
Investment revenue	5,000	5,000	2,011	(2,989)
Miscellaneous	39,650	39,650	63,568	23,918
Total Revenues	<u>2,727,642</u>	<u>2,727,642</u>	<u>2,867,402</u>	<u>139,760</u>
Expenditures				
Current				
General government	478,497	478,497	563,606	(85,109)
Public safety	1,138,675	1,138,675	1,229,802	(91,127)
Streets and highways	462,625	462,625	420,694	41,931
Culture and recreation	123,898	123,898	134,981	(11,083)
Economic development	-	-	9,701	(9,701)
Miscellaneous	125,447	125,447	90,816	34,631
Capital outlay				
General government	6,000	6,000	3,021	2,979
Public safety	35,000	35,000	12,464	22,536
Streets and Highways	-	-	3,333	(3,333)
Culture and recreation	12,500	12,500	12,910	(410)
Debt service				
Principal	-	-	5,000	(5,000)
Total Expenditures	<u>2,382,642</u>	<u>2,382,642</u>	<u>2,486,328</u>	<u>(103,686)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	345,000	345,000	381,074	36,074
Other Financing Sources (Uses)				
Transfers out	<u>(345,000)</u>	<u>(345,000)</u>	<u>(436,000)</u>	<u>(91,000)</u>
Net Change in Fund Balances	-	-	(54,926)	(54,926)
Fund Balances, January 1	<u>894,615</u>	<u>894,615</u>	<u>894,615</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 894,615</u>	<u>\$ 894,615</u>	<u>\$ 839,689</u>	<u>\$ (54,926)</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Storm Water Utility	Total
Assets				
Current Assets				
Cash and temporary investments	\$ 422,273	\$ 596,516	\$ 397,503	\$ 1,416,292
Receivables				
Accounts	91,680	85,526	23,457	200,663
Intergovernmental	1,872	2,288	-	4,160
Prepaid items	6,656	10,910	325	17,891
Total Current Assets	522,481	695,240	421,285	1,639,006
Noncurrent Assets				
Advances to other funds - noncurrent	500,000	-	-	500,000
Capital assets at cost				
Land	160,000	268,414	-	428,414
Buildings	3,392,049	9,056,859	-	12,448,908
Infrastructure	6,813,490	3,504,848	1,904,425	12,222,763
Machinery and equipment	292,529	361,305	15,564	669,398
Motor vehicles	1,500	1,500	1,500	4,500
Construction in progress	771,043	323,225	587,007	1,681,275
Less accumulated depreciation	(4,832,243)	(6,077,287)	(867,421)	(11,776,951)
Total Capital Assets	6,598,368	7,438,864	1,641,075	15,678,307
Total Noncurrent Assets	7,098,368	7,438,864	1,641,075	16,178,307
Total Assets	7,620,849	8,134,104	2,062,360	17,817,313
Deferred Outflows of Resources				
Deferred pension resources	40,181	40,191	23,387	103,759
Liabilities				
Current Liabilities				
Accounts payable	36,076	28,968	24,638	89,682
Accrued interest payable	50,118	17,644	10,205	77,967
Accrued salaries payable	1,951	1,951	1,199	5,101
Compensated absences payable - current	6,419	6,419	1,395	14,233
Bonds payable - current	520,150	636,748	-	1,156,898
Total Current Liabilities	614,714	691,730	37,437	1,343,881
Noncurrent Liabilities				
Compensated absences payable - noncurrent	11,646	11,646	3,593	26,885
Advances from other funds - noncurrent	-	500,000	-	500,000
Net pension liability	53,038	52,626	30,159	135,823
Bonds payable	3,986,489	1,482,927	857,036	6,326,452
Total Noncurrent Liabilities	4,051,173	2,047,199	890,788	6,989,160
Total Liabilities	4,665,887	2,738,929	928,225	8,333,041
Deferred Inflows of Resources				
Deferred pension resources	40,599	40,616	23,642	104,857
Net Position				
Net investment in capital assets	2,157,071	5,357,365	1,054,068	8,568,504
Unrestricted	797,473	37,385	79,812	914,670
Total Net Position	\$ 2,954,544	\$ 5,394,750	\$ 1,133,880	\$ 9,483,174

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Storm Water Utility	Total
Operating Revenues				
Charges for services	\$ 983,271	\$ 949,413	\$ 193,556	\$ 2,126,240
Other income	22,564	292	1,758	24,614
Total Operating Revenues	<u>1,005,835</u>	<u>949,705</u>	<u>195,314</u>	<u>2,150,854</u>
Operating Expenses				
Personal services	121,168	122,549	75,275	318,992
Supplies	83,802	74,629	2,571	161,002
Other services and charges	145,483	134,438	93,911	373,832
Utilities	36,263	63,070	-	99,333
Depreciation	253,630	316,658	39,144	609,432
Total Operating Expenses	<u>640,346</u>	<u>711,344</u>	<u>210,901</u>	<u>1,562,591</u>
Operating Income (Loss)	<u>365,489</u>	<u>238,361</u>	<u>(15,587)</u>	<u>588,263</u>
Nonoperating Revenues (Expenses)				
Interest income	435	2,788	-	3,223
Federal grants - ARPA	71,832	17,617	-	89,449
Amortization of premium	9,161	2,895	-	12,056
Interest and other costs	(109,425)	(41,303)	(10,205)	(160,933)
Bond issuance costs	(22,037)	(9,203)	(21,825)	(53,065)
Total Nonoperating Revenues (Expenses)	<u>(50,034)</u>	<u>(27,206)</u>	<u>(32,030)</u>	<u>(109,270)</u>
Income (Loss) Before Capital Contributions	315,455	211,155	(47,617)	478,993
Capital Contributions				
Connection fees	<u>127,562</u>	<u>144,000</u>	<u>-</u>	<u>271,562</u>
Change in Net Position	443,017	355,155	(47,617)	750,555
Net Position, January 1	<u>2,511,527</u>	<u>5,039,595</u>	<u>1,181,497</u>	<u>8,732,619</u>
Net Position, December 31	<u>\$ 2,954,544</u>	<u>\$ 5,394,750</u>	<u>\$ 1,133,880</u>	<u>\$ 9,483,174</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Storm Water Utility	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,022,019	\$ 995,120	\$ 189,766	\$ 2,206,905
Payments to suppliers and vendors	(265,305)	(290,559)	(96,498)	(652,362)
Payments to and on behalf of employees	(130,867)	(132,106)	(74,612)	(337,585)
Other receipts	22,564	292	1,758	24,614
Net Cash Provided (Used) by Operating Activities	648,411	572,747	20,414	1,241,572
Cash Flows from Noncapital Financing Activities				
Federal grants - ARPA	71,832	17,617	-	89,449
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(810,840)	(329,961)	(564,179)	(1,704,980)
Advance (to) from other funds	(250,000)	250,000	-	-
Connection fees	127,562	144,000	-	271,562
Proceeds from sale of bonds	836,385	361,401	857,036	2,054,822
Principal paid on bonds	(501,900)	(630,000)	-	(1,131,900)
Interest paid on bonds	(104,603)	(40,262)	-	(144,865)
Bond issuance costs	(22,037)	(9,203)	(21,825)	(53,065)
Net Cash Provided (Used) by Capital and Related Financing Activities	(725,433)	(254,025)	271,032	(708,426)
Cash Flows from Investing Activities				
Interest received on cash and temporary investments	435	2,788	-	3,223
Net Increase (Decrease) in Cash and Cash Equivalents	(4,755)	339,127	291,446	625,818
Cash and Cash Equivalents, January 1	427,028	257,389	106,057	790,474
Cash and Cash Equivalents, December 31	<u>\$ 422,273</u>	<u>\$ 596,516</u>	<u>\$ 397,503</u>	<u>\$ 1,416,292</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used) Operating Activities				
Operating income (loss)	\$ 365,489	\$ 238,361	\$ (15,587)	\$ 588,263
Adjustments to reconcile operating income (loss) to net cash provided by (used) operating activities				
Depreciation	253,630	316,658	39,144	609,432
(Increase) decrease in assets				
Accounts receivable	10,545	11,237	(3,790)	17,992
Intergovernmental	28,203	34,470	-	62,673
Prepaid items	(3,142)	(3,483)	(116)	(6,741)
(Increase) decrease in deferred outflows of resources				
Deferred pension resources	(25,111)	(25,232)	(14,753)	(65,096)
Increase (decrease) in liabilities				
Accounts payable	3,385	(14,939)	100	(11,454)
Accrued wages payable	(3,202)	(3,202)	(1,862)	(8,266)
Compensated absences payable	(8,245)	(8,245)	1,450	(15,040)
Net pension liability	(9,545)	(9,408)	(5,544)	(24,497)
Increase (decrease) in deferred inflows of resources				
Deferred pension resources	36,404	36,530	21,372	94,306
Net Cash Provided by (Used) Operating Activities	<u>\$ 648,411</u>	<u>\$ 572,747</u>	<u>\$ 20,414</u>	<u>\$ 1,241,572</u>
Schedule of Noncash Investing, Capital and Financing Activities				
Capital assets acquired on account	\$ 25,735	\$ 10,891	\$ 24,328	\$ 60,954
Amortization of bond premium	<u>\$ (9,161)</u>	<u>\$ (2,895)</u>	<u>\$ -</u>	<u>\$ (12,056)</u>

The notes to the financial statements are an integral part of this statement.

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City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

A. Reporting Entity

The City of Montgomery, Minnesota (the City) operates under the "Optional Plan A" as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government.

The Housing and Redevelopment Authority of Montgomery, Minnesota (HRA) is an entity legally separated from the City. The HRA is responsible for administering affordable housing programs for eligible individuals and families of Montgomery. The City's officials are responsible for appointing members to the HRA's board of commissioners, but the City's accountability for the HRA does not extend beyond making appointments. The HRA is therefore not considered to be a part of the City's financial reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

The *Capital Projects fund* accounts for previously incurred infrastructure improvement costs.

The *2021 Street Improvement Project fund* accounts for the costs associated with the 2021 street project completed within the City.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Storm Water Utility fund* accounts for the operation, maintenance, and capital improvements of the City's storm water system.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statements of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The City may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market accounts operate in accordance with appropriate state laws and regulations. The reported values of the pools are the same as the fair value of the shares.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the City's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to less than five years.

Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental financial statements.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2021. Uncollectible utility bills are certified with the county and collected. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts in the Ambulance fund at December 31, 2021, was \$10,886.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Asset	Amount
Land and Land Improvements	\$ 10,000
Other Improvements	25,000
Buildings	25,000
Building Improvements	25,000
Machinery and Equipment	5,000
Vehicles	5,000
Infrastructure	100,000
Other Assets	5,000

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land Improvements	15 - 20
Other Improvements	15 - 20
Buildings and Improvements	10 - 40
System Improvements/Infrastructure	15 - 50
Machinery and Equipment	5 - 15
Vehicles	5 - 6
Other Assets	5 - 15

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP, PEPFP and Montgomery Fire Relief Association is as follows:

	Public Employees Retirement Association of Minnesota (PERA)		Fire Relief Association	Total Pension Expense
	GERP	PEPFP		
Pension Expense	\$ 54,753	\$ 10,920	\$ 32,844	\$ 92,122

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount accrued for compensated absences at December 31, 2021, is \$226,886. The General fund is typically used to liquidate governmental compensated absences payable.

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are delayed and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator and Clerk/Treasurer.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 40 percent and not more than 50 percent of the estimated General fund expenditure budget the following year.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the Administrator/Clerk so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted by the Council.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2021, expenditures exceeded appropriations in the following fund:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
General	<u>\$ 2,382,642</u>	<u>\$ 2,486,328</u>	<u>\$ 103,686</u>

The above excess of expenditures over appropriations was funded by revenues in excess of budget and available fund balance.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 2: Stewardship, Compliance and Accountability (Continued)

C. Deficit Fund Equity

The following fund had a fund equity deficit at December 31, 2021:

Fund	Amount
Major	
Capital Projects	\$ 495,600
Nonmajor	
Police Department Building	42,721
2023 Street Improvements	7,700

The above deficits will be eliminated through transfers from other funds when resources are available or funded by future bond proceeds.

Note 3: Detailed Notes on all Funds

A. Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits was \$4,659,827 and the bank balance was \$4,815,005. Of the bank balance, \$908,850 was covered by federal depository insurance. The remaining balance is covered by collateral held by the City's agent in the City's name.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Investments

Primary Government

As of December 31, 2021, the City had the following investments that are insured or registered, or securities held by the City's agent in the City's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
4M Fund	N/A	Less than 6 months	<u>\$ 1,408,935</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not available or applicable.

Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Position for the City is as follows:

Deposits	\$ 4,659,827
Investments	<u>1,408,935</u>
Total Cash and Temporary Investments	<u>\$ 6,068,762</u>

B. Notes and Leases Receivable

The City issued notes to renovate and remodel residential and business properties through the Small Cities Loan Grant Program. The balance of these notes at December 31, 2021, is \$92,185. The residential notes are unearned for 10 years, at which time the note is forgiven if the original property owner is still residing at the improved property. The business notes are to be paid back to the City at various monthly payments with no interest. The amount of the allowance for doubtful accounts for the forgivable residential notes is \$92,185.

The City issued a note through the City's Business Assistance Revolving loan program on March 1, 2019 for improvements. The note was for \$14,850 to be paid back at 3% annual interest rate for 5 years. This note is secured by a mortgage on the property. The current balance of this loan is \$6,709.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

C. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2021 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ 782,325	\$ -	\$ -	\$ 782,325
Construction in progress	850,477	1,915,416	(686,142)	2,079,751
Total Capital Assets not Being Depreciated	1,632,802	1,915,416	(686,142)	2,862,076
Capital Assets Being Depreciated				
Buildings	1,928,967	-	-	1,928,967
Improvements other than buildings	710,834	-	-	710,834
Infrastructure	5,966,775	332,504	-	6,299,279
Machinery and equipment	614,401	152,265	-	766,666
Vehicles	1,808,625	220,978	(26,125)	2,003,478
Total Capital Assets Being Depreciated	11,029,602	705,747	(26,125)	11,709,224
Less Accumulated Depreciation				
Buildings	(907,167)	(40,109)	-	(947,276)
Improvements other than buildings	(461,305)	(13,579)	-	(474,884)
Infrastructure	(3,440,390)	(175,747)	-	(3,616,137)
Machinery and equipment	(376,579)	(63,495)	-	(440,074)
Vehicles	(1,577,478)	(45,017)	21,227	(1,601,268)
Total Accumulated Depreciation	(6,762,919)	(337,947)	21,227	(7,079,639)
Total Capital Assets Being Depreciated, Net	4,266,683	367,800	(4,898)	4,629,585
Governmental Activities Capital Assets, Net	<u>\$ 5,899,485</u>	<u>\$ 2,283,216</u>	<u>\$ (691,040)</u>	<u>\$ 7,491,661</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not Being Depreciated				
Land	\$ 428,414	\$ -	\$ -	\$ 428,414
Construction in progress	40,015	1,681,275	(40,015)	1,681,275
Total Capital Assets not being Depreciated	<u>468,429</u>	<u>1,681,275</u>	<u>(40,015)</u>	<u>2,109,689</u>
Capital Assets Being Depreciated				
Buildings	12,384,876	64,032	-	12,448,908
Infrastructure	12,182,748	40,015	-	12,222,763
Machinery and equipment	653,271	16,127	-	669,398
Vehicles	18,771	4,500	(18,771)	4,500
Total Capital Assets Being Depreciated	<u>25,239,666</u>	<u>124,674</u>	<u>(18,771)</u>	<u>25,345,569</u>
Less Accumulated Depreciation For				
Buildings	(5,312,563)	(295,720)	-	(5,608,283)
Infrastructure	(5,296,720)	(294,612)	-	(5,591,332)
Machinery and equipment	(558,236)	(18,950)	-	(577,186)
Vehicles	(18,771)	(150)	18,771	(150)
Total Accumulated Depreciation	<u>(11,186,290)</u>	<u>(609,432)</u>	<u>18,771</u>	<u>(11,776,951)</u>
Total Capital Assets Being Depreciated, Net	<u>14,053,376</u>	<u>(484,758)</u>	<u>-</u>	<u>13,568,618</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,521,805</u>	<u>\$ 1,196,517</u>	<u>\$ (40,015)</u>	<u>\$ 15,678,307</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Government	\$ 19,666
Public Safety	66,301
Streets and Highways	201,728
Culture and Recreation	49,292
Economic Development	960
Total Depreciation Expense - Governmental Activities	<u>\$ 337,947</u>
Business-type Activities	
Water Utility	\$ 253,630
Sewer Utility	316,658
Storm Water Utility	39,144
Total Depreciation Expense - Business-type Activities	<u>\$ 609,432</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Construction Commitments

The City has active construction projects as of December 31, 2021. At year end, the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
2021 Street Improvement	\$ 3,533,013	\$ 948,383

D. Interfund Receivables, Payables and Transfers

Advances to/from other funds for the year ended December 31, 2021:

Receivable Fund	Payable Fund	Amount
Water Utility	Sewer Utility	\$ 500,000

The above interest free advance was made to help keep the Sewer Utility fund solvent and will mitigate higher rate increases. Once the MN PFA loan is repaid in 2022, the Sewer fund can begin to repay the Water Utility fund.

The following transfer was made for the year ended December 31, 2021:

	Transfers In		
	Capital Projects fund	Nonmajor funds	Total
Transfer Out			
General fund	\$ -	\$ 436,000	\$ 436,000
Debt Service fund	237,586	-	237,586
Total	\$ 237,586	\$ 436,000	\$ 673,586

Transfers occurred during 2021 for the following reasons:

- There was a transfer in the amount of \$436,000 from the General fund to the Nonmajor funds for capital purchases in current year as well as future capital reserves.
- There was a transfer in the amount of \$237,768 from a Debt Service fund to the Capital Projects fund to assist in eliminating a previous deficit incurred.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

F. Long-term Debt

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds of 2012A	\$ 1,870,000	2.00 - 3.55 %	02/23/12	02/01/26	\$ 175,000
G.O. Improvement Bonds of 2015A	1,700,000	2.00 - 3.00	05/14/15	02/01/31	1,195,100
G.O. Improvement Bonds of 2021A	2,820,000	1.20 - 2.00	04/08/21	02/01/37	<u>2,820,000</u>
Total G.O. Special Assessment Bonds					<u>\$ 4,190,100</u>

The annual debt service requirements to maturity for general obligation special assessment bonds are as follows:

Year Ending December 31	G.O. Special Assessment Bonds Governmental Activities		
	Principal	Interest	Total
2022	\$ 159,100	\$ 98,032	\$ 257,132
2023	332,900	77,381	410,281
2024	345,600	69,935	415,535
2025	285,600	63,262	348,862
2026	290,600	56,921	347,521
2027 - 2031	1,566,100	176,390	1,742,490
2032 - 2036	1,000,200	54,475	1,054,675
2037	<u>210,000</u>	<u>1,680</u>	<u>211,680</u>
Total	<u>\$ 4,190,100</u>	<u>\$ 598,076</u>	<u>\$ 4,788,176</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Sewer Revenue Notes of 2003A (PFA)	\$ 8,801,945	1.00 %	01/23/03	08/20/22	\$ 485,998
G.O. Water Revenue Notes of 2002B (PFA)	642,162	3.18	09/18/03	08/20/23	85,000
G.O. Water Revenue Note of 2004 (PFA)	358,044	2.84	05/24/04	08/20/23	47,045
G.O. Water and Sewer Refunding Bonds of 2010A	725,000	1.50 - 4.30	07/28/10	02/01/25	290,000
G.O. Refunding Bonds of 2012A	700,000	2.00 - 3.55	02/23/12	02/01/26	295,000
G.O. Sewer Revenue of 2015A	505,000	2.00 - 3.00	05/14/15	02/01/31	354,900
G.O. Water and Sewer Refunding Bonds of 2016A	3,095,000	2.50 - 2.75	12/15/16	02/01/29	2,175,000
G.O. Water and Sewer Refunding Bonds of 2017A	2,205,000	2.00 - 2.25	11/08/17	02/01/28	1,600,000
G.O. Water and Sewer Revenue Bonds of 2021A	1,990,000	1.20 - 2.00	04/08/21	02/01/37	<u>1,990,000</u>
Total G.O. Revenue Bonds					<u><u>\$ 7,322,943</u></u>

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer
Revenues	\$ 983,271	\$ 949,413
Principal and Interest	606,503	670,262
Percentage of Revenues	61.7%	70.6%

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

Year Ending December 31	G.O. Revenue Bonds Business-type Activities		
	Principal	Interest	Total
2022	\$ 1,156,898	\$ 167,725	\$ 1,324,623
2023	797,460	133,775	931,235
2024	759,442	113,375	872,817
2025	774,442	94,281	868,723
2026	790,304	74,455	864,759
2027 - 2031	2,188,066	152,353	2,340,419
2032 - 2036	710,073	38,499	748,572
2037	146,258	1,660	147,918
Total	<u>\$ 7,322,943</u>	<u>\$ 776,123</u>	<u>\$ 8,099,066</u>

Revenue Bonds

The following bond was issued by the EDA to finance construction of a library within the City. Future lease payments of the City are pledged to retire the debt.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Refunding Bonds of 2012A	\$ 1,105,000	2.00 - 3.55 %	02/23/12	02/01/26	<u>\$ 440,000</u>

The annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31	Revenue Bonds Governmental Activities		
	Principal	Interest	Total
2022	\$ 85,000	\$ 12,914	\$ 97,914
2023	85,000	10,427	95,427
2024	85,000	7,792	92,792
2025	90,000	4,902	94,902
2026	95,000	1,686	96,686
Total	<u>\$ 440,000</u>	<u>\$ 37,721</u>	<u>\$ 477,721</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

Notes Payable

The following notes were issued to the City to purchase land for the use of park development and to finance the purchase of a plow truck. The park land payments are quarterly at a zero percent interest rate. The plow truck payments are made annually at a 3.88 percent interest rate.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Park land	\$ 35,000	- %	07/31/19	06/30/26	\$ 21,250
Plow truck	220,978	3.88	07/06/20	07/06/24	132,459
Total Notes Payable					<u>\$ 153,709</u>

The annual debt service requirements to maturity for notes payable are as follows:

Year Ending December 31	Governmental Activities		
	Principal	Interest	Total
2022	\$ 47,483	\$ 5,139	\$ 52,622
2023	49,132	3,491	52,623
2024	50,844	1,779	52,623
2025	5,000	-	5,000
2026	1,250	-	1,250
Total	<u>\$ 153,709</u>	<u>\$ 10,409</u>	<u>\$ 164,118</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
General Obligation Special					
Assessment Bonds	\$ 1,779,200	\$ 2,820,000	\$ (409,100)	\$ 4,190,100	\$ 159,100
Revenue Bonds	520,000	-	(80,000)	440,000	85,000
Total Bonds Payable	<u>2,299,200</u>	<u>2,820,000</u>	<u>(489,100)</u>	<u>4,630,100</u>	<u>244,100</u>
Note Payable	199,605	-	(45,896)	153,709	47,483
Compensated Absences					
Payable	172,352	95,920	(82,504)	185,768	51,781
Bond Premiums	41,293	91,857	(3,744)	129,406	-
Governmental Activity Long-term Liabilities	<u>\$ 2,712,450</u>	<u>\$ 3,007,777</u>	<u>\$ (621,244)</u>	<u>\$ 5,098,983</u>	<u>\$ 343,364</u>
Business-type Activities					
Bonds Payable					
General Obligation Bond					
Revenue Bonds	\$ 6,464,843	\$ 1,990,000	\$ (1,131,900)	\$ 7,322,943	\$ 1,156,898
Compensated Absences					
Payable	56,158	16,420	(31,460)	41,118	14,233
Bond Premiums	107,641	64,821	(12,055)	160,407	-
Business-type Activity Long-term Liabilities	<u>\$ 6,628,642</u>	<u>\$ 2,071,241</u>	<u>\$ (1,175,415)</u>	<u>\$ 7,524,468</u>	<u>\$ 1,171,131</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on all Funds (Continued)

G. Operating Leases

The City entered into an operating lease agreement during 2021 for a police squad car. The future minimum rental payments are as follows:

Year Ending December 31	Governmental Activities
2022	\$ 9,714
2023	9,714
2024	5,667
Total	<u>\$ 25,095</u>

H. Components of Fund Balance

At December 31, 2021, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Capital Projects	2021 Street Improvements	Other Governmental Funds	Total
Nonspendable						
Prepaid Items	\$ 55,635	\$ -	\$ -	\$ -	\$ 2,557	\$ 58,192
Restricted						
Debt Service	\$ -	\$ 1,708,572	\$ -	\$ -	\$ -	\$ 1,708,572
Economic Development	-	-	-	-	11,105	11,105
Park Dedication	-	-	-	-	81,000	81,000
Street Improvements	-	-	-	878,440	49,708	928,148
Equipment Replacement	-	-	-	-	280,579	280,579
Tax Increment Financing	-	-	-	-	5,330	5,330
Police Operations	-	-	-	-	3,369	3,369
Crime Prevention	-	-	-	-	1,409	1,409
Total Restricted	<u>\$ -</u>	<u>\$ 1,708,572</u>	<u>\$ -</u>	<u>\$ 878,440</u>	<u>\$ 432,500</u>	<u>\$ 3,019,512</u>
Committed						
Economic Development	\$ -	\$ -	\$ -	\$ -	\$ 92,678	\$ 92,678
Communications	-	-	-	-	90,685	90,685
Park Improvements	-	-	-	-	143,751	143,751
Street Improvements	-	-	-	-	667,823	667,823
Facility Maintenance	-	-	-	-	23,877	23,877
Equipment Replacement	-	-	-	-	106,834	106,834
Ambulance	-	-	-	-	108,524	108,524
Total Committed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,234,172</u>	<u>\$ 1,234,172</u>
Unassigned	<u>\$ 784,054</u>	<u>\$ -</u>	<u>\$ (495,600)</u>	<u>\$ -</u>	<u>\$ (50,421)</u>	<u>\$ 238,033</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota statutes*, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employee Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ending December 31, 2021, 2020 and 2019 were \$60,768, \$50,363 and \$44,310, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the years ending December 31, 2021, 2020 and 2019 were \$89,315, \$81,056 and \$64,166, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$431,315 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$13,161. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was 0.0101 percent which was an increase of 0.0008 percent from its proportion measured as of June 30, 2020.

City's Proportionate Share of the Net Pension Liability	\$ 431,315
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>13,161</u>
Total	<u>\$ 444,476</u>

For the year ended December 31, 2021, the City recognized pension expense of \$53,691 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$1,062 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2021, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,151	\$ 13,077
Changes in Actuarial Assumptions	263,352	8,455
Net Difference Between Projected and Actual Earnings on Plan Investments	-	372,627
Changes in Proportion	85,653	-
Contributions Paid to PERA Subsequent to the Measurement Date	29,908	-
Total	<u>\$ 381,064</u>	<u>\$ 394,159</u>

The \$29,908 reported as deferred outflows of resources related to pensions resulting from the City's contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ 29,842
2023	21,565
2024	7,472
2025	(101,882)

Police and Fire Fund Pension Costs

At December 31, 2021, the City reported a liability of \$304,898 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was 0.0395 percent which was an increase of 0.0004 percent from its proportionate share measured as of June 30, 2020.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2021, the City recognized pension expense of \$8,422 for its proportionate share of the Police and Fire Fund's pension expense. In addition, the City recognized an additional \$2,498 as pension expense (grant revenue) for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in fire state aid. The City also recognized \$3,555 for the year ended December 31, 2021 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

At December 31, 2021, the City reported its proportionate share of the Police and Fire Plan's 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 Experience	\$ 61,594	\$ 18,543
Changes in Actuarial Assumptions	508,673	200,305
Net Difference Between Projected and Actual Earnings on Plan Investments	-	577,826
Changes in Proportion	103,772	16,524
Contributions Paid to PERA Subsequent to the Measurement Date	42,561	-
Total	<u>\$ 716,600</u>	<u>\$ 813,198</u>

The \$42,561 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 net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ (150,072)
2023	(26,648)
2024	(6,849)
2025	(54,572)
2026	98,982

E. Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan is based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020. The recommended assumptions for that plan were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the Legislature.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

Police and Fire Fund

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
Alternative Assets (Private Markets)	25.0	5.90
Bonds (Fixed Income)	25.0	0.75
International Equity	16.5	5.30
Total	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	City Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
General Employees Fund	\$ 879,663	\$ 431,315	\$ 63,419
Police and Fire Fund	968,000	304,898	(238,681)

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association

A. Plan Description

All members of the Montgomery Fire Department (the Department) are covered by a Defined Benefit Plan (the Plan) administered by the Montgomery Fire Department Relief Association (the Association). The Plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter. 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income. As of December 31, 2021, the plan covered 24 active firefighters and 3 vested terminated firefighters whose pension benefits are deferred.

B. Benefits Provided

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions. The State of Minnesota contributed \$31,800 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2021, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2021 were \$31,800. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions \$20,741 to the plan.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association

D. Pension Costs

At December 31, 2021, the City reported a net pension liability of \$23,823 for the Volunteer Firefighter Fund. The net pension liability was measured as of December 31, 2021. The total pension liability used to calculate the net pension liability in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance January 1, 2021	\$ 795,391	\$ 771,568	\$ 23,823
Changes for the Year			
Service cost	49,432	-	49,432
Interest on pension liability	36,575	-	36,575
Contributions - state and local	-	52,541	(52,541)
Net investment income	-	80,910	(80,910)
Benefit payments	(64,096)	(64,096)	-
Administrative expenses	-	(1,725)	1,725
Total Net Changes	21,911	67,630	(45,719)
Ending Balance December 31, 2021	\$ 817,302	\$ 839,198	\$ (21,896)

For the year ended December 31, 2021, the City recognized pension expense of \$32,844.

At December 31, 2021, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 66,855
Changes in Assumptions	9,173	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	54,917
Contributions to Plan Subsequent to the Measurement Date	52,541	-
Total	\$ 61,714	\$ 121,772

Deferred outflows of resources totaling \$52,541 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2022	\$ (24,859)
2023	(18,329)
2024	(32,739)
2025	(19,402)
2026	(10,103)
Thereafter	(7,167)

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

E. Actuarial Assumption

The total pension liability at December 31, 2021 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Discount Rate	4.50%
Expected Return on Plan Assets	4.50%
Inflation Rate	2.25%
Mortality	RP-2014 employee generational mortality table project with mortality improvement scale MP-2018
Index Rate for 20-Year Municipal Bonds	2.75%

The following changes in actuarial assumptions and plan provisions occurred in 2021:

Changes in Actuarial Assumptions

- There were no changes in actuarial assumptions since the previous valuation.

Changes in Plan Provisions

- There were no changes in actuarial assumptions since the previous valuation.

F. Discount Rate

The discount rate used to measure the total pension liability was 4.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's net pension liability for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	<u>1 Percent Decrease (3.50%)</u>	<u>Current (4.50%)</u>	<u>1 Percent Increase (5.50%)</u>
Defined Benefit Plan	\$ (3,528)	\$ (21,896)	\$ (40,584)

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

H. Asset Allocation

The long-term expected rate of return on pension plan investments was set based on the plan's target investment allocation along with long-term return expectations by asset class. All economic assumptions were based on input from various published sources and projected future financial data available.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	60.0 %	4.95 %
Fixed Income	35.0	1.40
Cash and Equivalents	5.0	0.09
Total	<u>100.0 %</u>	

I. Pension Plan Fiduciary Net Position

Detailed information about the Montgomery Firefighter Fund's fiduciary net position as of June 30, 2021, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Montgomery Fire Relief Association, 201 Ash Ave SW, Montgomery, MN 56069.

Note 6: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. There were no significant reductions in insurance coverage from the previous year. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2021, the City is under the legal debt margin.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 6: Other Information (Continued)

D. Tax Increment Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

E. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota via the Local Government Aid (LGA) program. The amount received in 2021 was \$876,514 which accounted for 30.6 percent of General fund revenues.

Note 7: Tax Abatements

As of December 31, 2021, the City has one agreement entered into by the City listed below that abates City property taxes. The City entered into a tax increment financing agreement (TIF #8) on 5/5/2008 with a developer in which the developer incurs costs for property improvements related to the assisted living and medical center project. In return, the City will reimburse the developer for some costs as the city collects future tax increment for the increased property value and tax capacity related to the economic development. The pay-as-you-go agreement has a maximum return to the developer of \$825,600 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.124-469.134). The calculation of taxes abated during the fiscal year is noted in the chart below.

	<u>City Tax Rate (Year of Establishment)</u>		<u>District Tax Capacity</u>	<u>Amount of Taxes Abated Current Year</u>
Tax Increment Districts (PAYGO)				
TIF #8 (Assisted Living Facility and Medical Clinic)	115.8 %	\$	31,616	\$ 36,603

Note 8: COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the City cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the City's financial condition, liquidity, and future results of its revenue collections is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2021	0.0101 %	\$ 431,315	\$ 13,161	\$ 444,476	\$ 753,348	57.3 %	87.0 %
6/30/2020	0.0093	557,578	17,217	574,795	625,200	89.2	79.0
6/30/2019	0.0082	453,360	14,166	467,526	581,640	77.9	80.2
6/30/2018	0.0072	399,426	13,214	412,640	462,957	86.3	79.5
6/30/2017	0.0074	472,411	5,940	478,351	499,895	94.5	75.9
6/30/2016	0.0071	576,486	7,537	584,023	439,309	131.2	68.9
6/30/2015	0.0066	342,046	-	342,046	391,186	87.4	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2021	\$ 60,768	\$ 60,768	\$ -	\$ 810,245	7.5 %
12/31/2020	50,363	50,363	-	671,504	7.5
12/31/2019	44,310	44,310	-	590,796	7.5
12/31/2018	40,942	40,942	-	545,887	7.5
12/31/2017	34,310	34,310	-	457,472	7.5
12/31/2016	35,783	35,783	-	477,104	7.5
12/31/2015	30,345	30,345	-	404,600	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in Plan Provisions

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 - There were no changes in plan provisions since the previous valuation.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Schedule of Employer's Share of PERA Net Pension Liability - Police and Fire Fund

Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2021	0.0395 %	\$ 304,898	\$ 13,715	\$ 318,613	\$ 485,240	62.8 %	93.7 %
6/30/2020	0.0391	515,380	12,165	527,545	446,294	115.5	87.2
6/30/2019	0.0374	398,161	-	398,161	394,484	100.9	89.3
6/30/2018	0.0283	301,649	-	301,649	286,199	105.4	88.8
6/30/2017	0.0310	418,537	-	418,537	327,394	127.8	85.4
6/30/2016	0.0300	1,203,952	-	1,203,952	291,621	412.8	63.9
6/30/2015	0.0320	363,595	-	363,595	320,471	113.5	86.6

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - Police and Fire Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2021	\$ 89,315	\$ 89,315	\$ -	\$ 504,606	17.70 %
12/31/2020	81,056	81,056	-	478,207	16.95
12/31/2019	64,166	64,166	-	378,562	16.95
12/31/2018	60,646	60,646	-	374,356	16.20
12/31/2017	45,581	45,581	-	281,366	16.20
12/31/2016	49,546	49,546	-	305,838	16.20
12/31/2015	46,075	46,075	-	284,414	16.20

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Notes to the Required Supplementary Information - Police and Fire Fund

Changes in Actuarial Assumptions

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The inflation assumption was changed from 2.50 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.00 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020. The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020). Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates. Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements. Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations. Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities. Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020 - The mortality projection scale was changed from MP-2018 to MP-2019.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2016 to MP-2017.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Notes to the Required Supplementary Information - Police and Fire Fund (Continued)

Changes in Plan Provisions

2021 - There were no changes in plan provisions since the previous valuation.

2020 - There were no changes in plan provisions since the previous valuation.

2019 - There were no changes in plan provisions since the previous valuation.

2018 - As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter. The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 - There were no changes in plan provisions since the previous valuation.

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

	2021 (Fire Relief Report Date 2020)	2020 (Fire Relief Report Date 2019)	2019 (Fire Relief Report Date 2018)	2018 (Fire Relief Report Date 2017)
Total Pension Liability				
Service cost	\$ 49,432	\$ 45,556	\$ 41,514	\$ 40,501
Interest on pension liability (asset)	36,575	34,697	28,341	25,991
Changes of benefit terms	-	144,640	53,230	-
Differences between expected and actual experience	-	(90,273)	-	-
Changes of assumptions	-	12,385	-	-
Benefit payments	(64,096)	-	-	(41,000)
Net Change in Total Pension Liability	21,911	147,005	123,085	25,492
Total Pension Liability - January 1	795,391	648,386	525,301	499,809
Total Pension Liability - December 31 (a)	\$ 817,302	\$ 795,391	\$ 648,386	\$ 525,301
Plan Fiduciary Net Position				
Contributions - state and local	52,541	48,816	37,847	\$ 38,272
Net investment income	80,910	98,746	(40,160)	60,260
Benefit payments	(64,096)	-	-	(41,000)
Administrative expenses	(1,725)	(1,725)	(1,725)	(1,725)
Net Change in Plan Fiduciary Net Position	67,630	145,837	(4,038)	55,807
Plan Fiduciary Net Position - January 1	771,568	625,731	629,769	573,962
Plan Fiduciary Net Position - December 31 (b)	\$ 839,198	\$ 771,568	\$ 625,731	\$ 629,769
Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	\$ (21,896)	\$ 23,823	\$ 22,655	\$ (104,468)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	145.4%	97.0%	96.5%	119.9%
Covered-Employee Payroll	N/A	N/A	N/A	N/A
Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A	N/A

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - Fire Relief Association

Changes in Actuarial Assumptions

2021 - No changes.

2020 - The inflation assumption was decreased from 2.50% to 2.25%. The expected investment return and discount rate decreased from 5.00% to 4.50% to reflect updated capital markets. The mortality assumptions were updated from the rates used in the July 1, 2017 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2019 Minnesota PERA Police & Fire Plan actuarial valuation.

2019 - No changes.

2018 - No changes since implementation was in 2018.

Changes in Plan Provisions

2021 - No changes.

2020 - Changes in benefit terms increased \$91,410.

2019 - The lump sum benefit amount increased from \$2,200 to \$2,400.

2018 - No changes since implementation was in 2018.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2021

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/2021	\$ 31,800	\$ 52,541	\$ (20,741)
12/31/2020	30,541	50,541	(20,000)
12/31/2019	28,816	48,816	(20,000)
12/31/2018	27,847	37,847	(10,000)
12/31/2017	28,272	38,272	(10,000)
12/31/2016	28,219	38,219	(10,000)
12/31/2015	27,995	37,995	(10,000)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Montgomery, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2021

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total
Assets			
Cash and temporary investments	\$ 350,066	\$ 1,317,090	\$ 1,667,156
Receivables			
Accounts, net of allowance	119,656	-	119,656
Notes, net of allowance	6,709	-	6,709
Special assessments	-	154,845	154,845
Prepaid items	2,557	-	2,557
Total Assets	<u>\$ 478,988</u>	<u>\$ 1,471,935</u>	<u>\$ 1,950,923</u>
Liabilities			
Accounts payable	\$ 61,975	\$ 29,809	\$ 91,784
Accrued salaries payable	8,280	-	8,280
Unearned revenue	77,206	-	77,206
Total Liabilities	<u>147,461</u>	<u>29,809</u>	<u>177,270</u>
Deferred Inflows of Resources			
Unavailable revenue			
Special assessments	-	154,845	154,845
Fund Balances			
Nonspendable	2,557	-	2,557
Restricted	21,213	411,287	432,500
Committed	307,757	926,415	1,234,172
Unassigned	-	(50,421)	(50,421)
Total Fund Balances	<u>331,527</u>	<u>1,287,281</u>	<u>1,618,808</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 478,988</u>	<u>\$ 1,471,935</u>	<u>\$ 1,950,923</u>

City of Montgomery, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2021

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total
Revenues			
Taxes	\$ 57,470	\$ -	\$ 57,470
Special assessments	-	35,092	35,092
Intergovernmental	29,287	55,055	84,342
Charges for services			
Public safety	221,722	-	221,722
Fines and forfeits	3,369	-	3,369
Investment earnings	114	844	958
Miscellaneous	89,718	106,859	196,577
Total Revenues	<u>401,680</u>	<u>197,850</u>	<u>599,530</u>
Expenditures			
Current			
Public safety	249,211	-	249,211
Culture and recreation	721	-	721
Economic development	137,299	-	137,299
Miscellaneous	33,486	-	33,486
Capital outlay			
General government	-	501	501
Public safety	286	179,788	180,074
Streets and highways	-	47,958	47,958
Culture and recreation	5,000	26,510	31,510
Debt service			
Principal	-	40,896	40,896
Interest and other	-	6,727	6,727
Total Expenditures	<u>426,003</u>	<u>302,380</u>	<u>728,383</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(24,323)</u>	<u>(104,530)</u>	<u>(128,853)</u>
Other Financing Sources (Uses)			
Sale of capital assets	-	28,997	28,997
Transfers in	-	436,000	436,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>464,997</u>	<u>464,997</u>
Net Change in Fund Balances	(24,323)	360,467	336,144
Fund Balances, January 1	<u>355,850</u>	<u>926,814</u>	<u>1,282,664</u>
Fund Balances , December 31	<u>\$ 331,527</u>	<u>\$ 1,287,281</u>	<u>\$ 1,618,808</u>

City of Montgomery, Minnesota
Nonmajor Special Revenue Funds
Combining Balance Sheet
December 31, 2021

	204	205	206	211	214	216
	Ambulance	Economic Development Authority	Police Forfeitures	Crime Prevention	Memorial Park	SCDP Grant 2009
Assets						
Cash and temporary investments	\$ 22,834	\$ 86,447	\$ 3,369	\$ 1,409	\$ 15,870	\$ 8,605
Receivables						
Accounts, net of allowance	97,973	-	-	-	-	-
Notes, net of allowance	-	6,709	-	-	-	-
Prepaid items	2,557	-	-	-	-	-
Total Assets	\$ 123,364	\$ 93,156	\$ 3,369	\$ 1,409	\$ 15,870	\$ 8,605
Liabilities						
Accounts payable	\$ 4,154	\$ 478	\$ -	\$ -	\$ -	\$ -
Accrued salaries payable	8,129	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Total Liabilities	12,283	478	-	-	-	-
Fund Balances						
Nonspendable	2,557	-	-	-	-	-
Restricted	-	-	3,369	1,409	-	8,605
Committed	108,524	92,678	-	-	15,870	-
Total Fund Balances	111,081	92,678	3,369	1,409	15,870	8,605
Total Liabilities and Fund Balances	\$ 123,364	\$ 93,156	\$ 3,369	\$ 1,409	\$ 15,870	\$ 8,605

217	218	227	228	230	
Communications	SMIF Grant	TIF #8 Assisted Living Facility	TIF #8 Medical Clinic	American Rescue Plan Act Grant	Total
\$ 69,153	\$ 2,500	\$ 45,036	\$ 17,637	\$ 77,206	\$ 350,066
21,683	-	-	-	-	119,656
-	-	-	-	-	6,709
-	-	-	-	-	2,557
<u>\$ 90,836</u>	<u>\$ 2,500</u>	<u>\$ 45,036</u>	<u>\$ 17,637</u>	<u>\$ 77,206</u>	<u>\$ 478,988</u>
\$ -	\$ -	\$ 40,945	\$ 16,398	\$ -	\$ 61,975
151	-	-	-	-	8,280
-	-	-	-	77,206	77,206
<u>151</u>	<u>-</u>	<u>40,945</u>	<u>16,398</u>	<u>77,206</u>	<u>147,461</u>
-	-	-	-	-	2,557
-	2,500	4,091	1,239	-	21,213
90,685	-	-	-	-	307,757
<u>90,685</u>	<u>2,500</u>	<u>4,091</u>	<u>1,239</u>	<u>-</u>	<u>331,527</u>
<u>\$ 90,836</u>	<u>\$ 2,500</u>	<u>\$ 45,036</u>	<u>\$ 17,637</u>	<u>\$ 77,206</u>	<u>\$ 478,988</u>

City of Montgomery, Minnesota
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2021

	204	205	206	211	214	216
	Ambulance	Economic Development Authority	Police Forfeitures	Crime Prevention	Memorial Park	SCDP Grant 2009
Revenues						
Taxes						
Tax increments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise taxes	-	-	-	-	-	-
Intergovernmental	446	-	-	-	-	28,841
Charges for services						
Public safety	221,722	-	-	-	-	-
Fines and forfeits	-	-	3,369	-	-	-
Investment earnings	-	-	-	-	-	-
Miscellaneous						
Donations	45	-	-	1,475	-	-
Refunds and reimbursements	743	-	-	-	-	-
Other	-	70,205	-	-	14,750	-
Total Revenues	<u>222,956</u>	<u>70,205</u>	<u>3,369</u>	<u>1,475</u>	<u>14,750</u>	<u>28,841</u>
Expenditures						
Current						
Public safety	248,540	-	-	671	-	-
Culture and recreation	-	-	-	-	721	-
Economic development	-	72,193	-	-	-	28,841
Miscellaneous	-	-	-	-	-	-
Capital outlay						
Public safety	286	-	-	-	-	-
Culture and recreation	-	-	-	-	5,000	-
Total Expenditures	<u>248,826</u>	<u>72,193</u>	<u>-</u>	<u>671</u>	<u>5,721</u>	<u>28,841</u>
Net Change in Fund Balances	(25,870)	(1,988)	3,369	804	9,029	-
Fund Balances, January 1	<u>136,951</u>	<u>94,666</u>	<u>-</u>	<u>605</u>	<u>6,841</u>	<u>8,605</u>
Fund Balances, December 31	<u>\$ 111,081</u>	<u>\$ 92,678</u>	<u>\$ 3,369</u>	<u>\$ 1,409</u>	<u>\$ 15,870</u>	<u>\$ 8,605</u>

217	218	227	228	230	
Communications	SMIF	TIF #8	TIF #8	American	
	Grant	Assisted	Medical	Rescue Plan	Total
		Living Facility	Clinic	Act Grant	
\$ -	\$ -	\$ 25,767	\$ 10,020	\$ -	\$ 35,787
21,683	-	-	-	-	21,683
-	-	-	-	-	29,287
-	-	-	-	-	221,722
-	-	-	-	-	3,369
-	-	82	32	-	114
-	2,500	-	-	-	4,020
-	-	-	-	-	743
-	-	-	-	-	84,955
<u>21,683</u>	<u>2,500</u>	<u>25,849</u>	<u>10,052</u>	<u>-</u>	<u>401,680</u>
-	-	-	-	-	249,211
-	-	-	-	-	721
-	-	25,769	10,496	-	137,299
33,486	-	-	-	-	33,486
-	-	-	-	-	286
-	-	-	-	-	5,000
<u>33,486</u>	<u>-</u>	<u>25,769</u>	<u>10,496</u>	<u>-</u>	<u>426,003</u>
(11,803)	2,500	80	(444)	-	(24,323)
<u>102,488</u>	<u>-</u>	<u>4,011</u>	<u>1,683</u>	<u>-</u>	<u>355,850</u>
<u>\$ 90,685</u>	<u>\$ 2,500</u>	<u>\$ 4,091</u>	<u>\$ 1,239</u>	<u>\$ -</u>	<u>\$ 331,527</u>

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City of Montgomery, Minnesota
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Ambulance Fund
For the Year Ended December 31, 2021
(With Comparative Totals for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
Revenues					
Intergovernmental					
Federal - CARES	\$ -	\$ -	\$ -	\$ -	\$ 32,575
State - other	2,000	2,000	446	(1,554)	825
Charges for services	111,761	111,761	221,722	109,961	162,518
Miscellaneous					
Contributions and donations	-	-	45	45	77
Refunds and reimbursements	-	-	743	743	-
Total Revenues	<u>113,761</u>	<u>113,761</u>	<u>222,956</u>	<u>109,195</u>	<u>195,995</u>
Expenditures					
Current					
Public safety					
Personal services	102,400	102,400	192,470	(90,070)	97,531
Supplies	15,600	15,600	20,393	(4,793)	12,853
Other services and charges	34,650	34,650	35,677	(1,027)	29,777
Capital outlay					
Public safety	-	-	286	(286)	1,900
Total Expenditures	<u>152,650</u>	<u>152,650</u>	<u>248,826</u>	<u>(96,176)</u>	<u>142,061</u>
Net Change in Fund Balances	(38,889)	(38,889)	(25,870)	13,019	53,934
Fund Balances, January 1	<u>136,951</u>	<u>136,951</u>	<u>136,951</u>	-	<u>83,017</u>
Fund Balances, December 31	<u>\$ 98,062</u>	<u>\$ 98,062</u>	<u>\$ 111,081</u>	<u>\$ 13,019</u>	<u>\$ 136,951</u>

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Nonmajor Capital Projects Funds
Combining Balance Sheet
December 31, 2021

	203	422	423	424	421
	Fire Equipment	Park Improvements	Equipment Replacement	Facility Maintenance	Street Improvements
Assets					
Cash and temporary investments	\$ 310,579	\$ 208,881	\$ 76,834	\$ 23,877	\$ 720,834
Receivables					
Special assessments	-	-	-	-	154,845
Total Assets	<u>\$ 310,579</u>	<u>\$ 208,881</u>	<u>\$ 76,834</u>	<u>\$ 23,877</u>	<u>\$ 875,679</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 3,303
Deferred Inflows of Resources					
Unavailable revenue					
Special assessments	-	-	-	-	154,845
Fund Balances					
Restricted	280,579	81,000	-	-	49,708
Committed	30,000	127,881	76,834	23,877	667,823
Unassigned	-	-	-	-	-
Total Fund Balances	<u>310,579</u>	<u>208,881</u>	<u>76,834</u>	<u>23,877</u>	<u>717,531</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 310,579</u>	<u>\$ 208,881</u>	<u>\$ 76,834</u>	<u>\$ 23,877</u>	<u>\$ 875,679</u>

427 Police Department Building	428 2023 Street Improvements	Total
\$ (16,215)	\$ (7,700)	\$ 1,317,090
-	-	154,845
<u>\$ (16,215)</u>	<u>\$ (7,700)</u>	<u>\$ 1,471,935</u>
 \$ 26,506	 \$ -	 \$ 29,809
 -	 -	 154,845
-	-	411,287
-	-	926,415
(42,721)	(7,700)	(50,421)
<u>(42,721)</u>	<u>(7,700)</u>	<u>1,287,281</u>
 <u>\$ (16,215)</u>	 <u>\$ (7,700)</u>	 <u>\$ 1,471,935</u>

City of Montgomery, Minnesota
Nonmajor Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2021

	203	422	423	424	421
	Fire Equipment	Park Improvements	Equipment Replacement	Facility Maintenance	Street Improvements
Revenues					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ 35,092
Intergovernmental - state	-	-	-	-	55,055
Investment earnings	555	289	-	-	-
Miscellaneous					
Donations	89,989	7,520	-	-	-
Other	-	-	-	-	9,350
Total Revenues	<u>90,544</u>	<u>7,809</u>	<u>-</u>	<u>-</u>	<u>99,497</u>
Expenditures					
Capital outlay					
General government	-	-	-	501	-
Public safety	102,090	-	34,977	-	-
Streets and highways	-	-	33,851	-	6,407
Culture and recreation	-	26,510	-	-	-
Debt service					
Principal	-	-	40,896	-	-
Interest and other	-	-	6,727	-	-
Total Expenditures	<u>102,090</u>	<u>26,510</u>	<u>116,451</u>	<u>501</u>	<u>6,407</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,546)</u>	<u>(18,701)</u>	<u>(116,451)</u>	<u>(501)</u>	<u>93,090</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	-	28,997	-	-
Transfers in	10,000	151,000	50,000	25,000	200,000
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>151,000</u>	<u>78,997</u>	<u>25,000</u>	<u>200,000</u>
Net Change in Fund Balances	(1,546)	132,299	(37,454)	24,499	293,090
Fund Balances, January 1	<u>312,125</u>	<u>76,582</u>	<u>114,288</u>	<u>(622)</u>	<u>424,441</u>
Fund Balances, December 31	<u>\$ 310,579</u>	<u>\$ 208,881</u>	<u>\$ 76,834</u>	<u>\$ 23,877</u>	<u>\$ 717,531</u>

427 Police Department Building	428 2023 Street Improvements	Total
\$ -	\$ -	\$ 35,092
-	-	55,055
-	-	844
-	-	97,509
-	-	9,350
-	-	197,850
-	-	501
42,721	-	179,788
-	7,700	47,958
-	-	26,510
-	-	40,896
-	-	6,727
42,721	7,700	302,380
(42,721)	(7,700)	(104,530)
-	-	28,997
-	-	436,000
-	-	464,997
(42,721)	(7,700)	360,467
-	-	926,814
\$ (42,721)	\$ (7,700)	\$ 1,287,281

City of Montgomery, Minnesota
General Fund
Comparative Balance Sheets
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and temporary investments	\$ 766,288	\$ 911,488
Investments		
Receivables		
Delinquent taxes	29,283	28,962
Special assessments	26,643	40,310
Intergovernmental	101,319	53,789
Prepaid Items	<u>55,635</u>	<u>49,550</u>
Total Assets	<u><u>\$ 979,168</u></u>	<u><u>\$ 1,084,099</u></u>
Liabilities		
Accounts payable	\$ 59,590	\$ 49,142
Due to Other Governments	607	-
Accrued salaries payable	<u>23,356</u>	<u>71,070</u>
Total Liabilities	<u><u>83,553</u></u>	<u><u>120,212</u></u>
Deferred Inflows of Resources		
Unavailable revenue		
Delinquent taxes	29,283	28,962
Special assessments	<u>26,643</u>	<u>40,310</u>
Total Deferred Inflows of Resources	<u><u>55,926</u></u>	<u><u>69,272</u></u>
Fund Balances		
Nonspendable	55,635	49,550
Unassigned	<u>784,054</u>	<u>845,065</u>
Total Fund Balances	<u><u>839,689</u></u>	<u><u>894,615</u></u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u><u>\$ 979,168</u></u>	<u><u>\$ 1,084,099</u></u>

City of Montgomery, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued on Following Pages)
For the Year Ended December 31, 2021
(With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021		Actual Amounts	Variance with Final Budget	2020
	Budgeted Amounts				Actual Amounts
	Original	Final			
Revenues					
Taxes					
Property taxes	\$ 1,508,262	\$ 1,508,262	\$ 1,496,261	\$ (12,001)	\$ 1,440,681
Payment in lieu of taxes	1,500	1,500	1,509	9	2,430
Total taxes	1,509,762	1,509,762	1,497,770	(11,992)	1,443,111
Licenses and permits					
Business	27,400	27,400	19,652	(7,748)	34,849
Non-business	69,420	69,420	155,195	85,775	170,365
Total licenses and permits	96,820	96,820	174,847	78,027	205,214
Intergovernmental					
Federal					
CARES	-	-	-	-	153,641
State					
Local government aid	878,129	878,129	876,514	(1,615)	850,126
Property tax credits and aids	400	400	400	-	364
Fire aid	27,000	27,000	31,800	4,800	30,541
Police aid	50,000	50,000	61,284	11,284	56,706
Other state aids	7,589	7,589	10,304	2,715	10,168
Total state	963,118	963,118	980,302	17,184	947,905
County					
Highway aid	22,000	22,000	24,564	2,564	21,065
Total intergovernmental	985,118	985,118	1,004,866	19,748	1,122,611
Charges for services					
General government	2,500	2,500	4,800	2,300	2,579
Public safety	57,892	57,892	73,446	15,554	48,996
Streets and highways	13,500	13,500	20,456	6,956	15,209
Culture and recreation	900	900	-	(900)	-
Total charges for services	74,792	74,792	98,702	23,910	66,784
Fines and forfeits	16,500	16,500	25,638	9,138	17,584
Investment revenue	5,000	5,000	2,011	(2,989)	6,394
Miscellaneous					
Contributions and donations	1,650	1,650	1,600	(50)	-
Refunds and reimbursements	30,000	30,000	50,393	20,393	57,017
Other	8,000	8,000	11,575	3,575	4,964
Total miscellaneous	39,650	39,650	63,568	23,918	61,981
Total Revenues	2,727,642	2,727,642	2,867,402	139,760	2,923,679
Expenditures					
Current					
General government					
Council					
Personal services	14,245	14,245	13,478	767	15,367
Other services and charges	5,150	5,150	991	4,159	449
Total council	19,395	19,395	14,469	4,926	15,816
Elections					
Personal services	-	-	801	(801)	15,534
Other services and charges	1,200	1,200	140	1,060	6,265
Total elections	1,200	1,200	941	259	21,799
Financial administration					
Personal services	241,121	241,121	269,580	(28,459)	255,758
Supplies	6,200	6,200	5,858	342	2,430
Other services and charges	86,720	86,720	85,329	1,391	103,962
Total financial administration	334,041	334,041	360,767	(26,726)	362,150
Planning and zoning					
Personal services	65,211	65,211	68,954	(3,743)	107,833
Other services and charges	58,650	58,650	118,475	(59,825)	128,857
Total planning and zoning	123,861	123,861	187,429	(63,568)	236,690
Total general government	478,497	478,497	563,606	(85,109)	636,455

City of Montgomery, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2021
(With Comparative Actual Amounts for Year Ended December 31, 2020)

Expenditures (Continued)	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Current (continued)					
Public safety					
Police					
Personal services	\$ 843,825	\$ 843,825	\$ 869,407	\$ (25,582)	\$ 862,053
Supplies	23,500	23,500	32,373	(8,873)	22,074
Other services and charges	132,450	132,450	164,003	(31,553)	130,143
Total police	999,775	999,775	1,065,783	(66,008)	1,014,270
Fire					
Personal services	93,550	93,550	110,614	(17,064)	94,847
Supplies	8,000	8,000	13,052	(5,052)	6,853
Other services and charges	37,350	37,350	40,353	(3,003)	34,809
Total fire	138,900	138,900	164,019	(25,119)	136,509
Communicable disease					
Supplies	-	-	-	-	2,801
Other services and charges	-	-	-	-	17,755
Total communicable disease	-	-	-	-	20,556
Total public safety	1,138,675	1,138,675	1,229,802	(91,127)	1,171,335
Streets and highways					
Public works					
Personal services	189,365	189,365	197,408	(8,043)	179,348
Supplies	4,000	4,000	4,092	(92)	4,989
Other services and charges	217,760	217,760	190,351	27,409	171,126
Total public works	411,125	411,125	391,851	19,274	355,463
Snow and ice removal					
Personal services	20,000	20,000	7,207	12,793	90,821
Supplies	3,000	3,000	6,324	(3,324)	47
Other services and charges	28,500	28,500	15,312	13,188	41,120
Total snow and ice removal	51,500	51,500	28,843	22,657	131,988
Total streets and highways	462,625	462,625	420,694	41,931	487,451
Culture and recreation					
Parks					
Personal services	63,023	63,023	76,056	(13,033)	34,037
Supplies	6,250	6,250	10,432	(4,182)	6,848
Other services and charges	32,250	32,250	27,812	4,438	16,955
Total parks	101,523	101,523	114,300	(12,777)	57,840
Library					
Supplies	875	875	319	556	130
Other services and charges	21,500	21,500	20,177	1,323	15,035
Total library	22,375	22,375	20,496	1,879	15,165
Total culture and recreation	123,898	123,898	134,981	(11,083)	73,005
Economic development					
Supplies	-	-	-	-	295
Other services and charges	-	-	9,701	(9,701)	-
Total economic development	-	-	9,701	(9,701)	295
Miscellaneous					
Unallocated					
Other services and charges	125,447	125,447	90,816	34,631	102,979
Total current	2,329,142	2,329,142	2,449,600	(120,458)	2,471,520

City of Montgomery, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2021
With Comparative Actual Amounts for Year Ended December 31, 2020

	2021		Actual Amounts	Variance with Final Budget	2020
	Budgeted Amounts Original	Final			Actual Amounts
Expenditures (Continued)					
Current (continued)					
Capital outlay					
General government	\$ 6,000	\$ 6,000	\$ 3,021	\$ 2,979	\$ 5,531
Public safety	35,000	35,000	12,464	22,536	63,496
Streets and highways	-	-	3,333	(3,333)	-
Culture and recreation	12,500	12,500	12,910	(410)	11,427
Total capital outlay	53,500	53,500	31,728	21,772	80,454
Debt service					
Principal	-	-	5,000	(5,000)	5,000
Total Expenditures	2,382,642	2,382,642	2,486,328	(103,686)	2,556,974
Excess (Deficiency) of Revenues Over (Under) Expenditures	345,000	345,000	381,074	36,074	366,705
Other Financing Sources (Uses)					
Transfers out	(345,000)	(345,000)	(436,000)	(91,000)	(372,389)
Net Change in Fund Balances	-	-	(54,926)	(54,926)	(5,684)
Fund Balances, January 1	894,615	894,615	894,615	-	900,299
Fund Balances, December 31	\$ 894,615	\$ 894,615	\$ 839,689	\$ (54,926)	\$ 894,615

City of Montgomery, Minnesota

Debt Service Funds
Combining Balance Sheet
December 31, 2021

	325	326	327	328	
	G.O. Improvement Bonds of 2011B	G.O. Refunding Bonds of 2012A	G.O. Improvement Bonds of 2015A	G.O. Improvement Bonds of 2021A	Total
Assets					
Cash and temporary investments	\$ -	\$ 797,319	\$ 440,005	\$ 471,248	\$ 1,708,572
Receivables					
Special assessments	-	959	248,516	516,259	765,734
Total Assets	<u>\$ -</u>	<u>\$ 798,278</u>	<u>\$ 688,521</u>	<u>\$ 987,507</u>	<u>\$ 2,474,306</u>
Deferred Inflows of Resources					
Unavailable revenue					
Special assessments	\$ -	\$ 959	\$ 248,516	\$ 516,259	\$ 765,734
Fund Balances					
Restricted	-	797,319	440,005	471,248	1,708,572
Total Deferred Inflows of Resources and Fund Balances	<u>\$ -</u>	<u>\$ 798,278</u>	<u>\$ 688,521</u>	<u>\$ 987,507</u>	<u>\$ 2,474,306</u>

City of Montgomery, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2021

	325 G.O. Improvement Bonds of 2011B	326 G.O. Refunding Bonds of 2012A	327 G.O. Improvement Bonds of 2015A	328 G.O. Improvement Bonds of 2021A	Total
Revenues					
Taxes					
Property taxes	\$ -	\$ 138,000	\$ 51,216	\$ -	\$ 189,216
Special assessments	24,366	4,054	52,912	431,842	513,174
Investment earnings	-	2,538	-	-	2,538
Miscellaneous					
Contributions and donations	-	20,000	-	-	20,000
Total Revenues	<u>24,366</u>	<u>164,592</u>	<u>104,128</u>	<u>431,842</u>	<u>724,928</u>
Expenditures					
Debt service					
Principal	30,000	355,000	104,100	-	489,100
Interest and other	899	24,116	34,945	-	59,960
Total Expenditures	<u>30,899</u>	<u>379,116</u>	<u>139,045</u>	<u>-</u>	<u>549,060</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,533)</u>	<u>(214,524)</u>	<u>(34,917)</u>	<u>431,842</u>	<u>175,868</u>
Other Financing Sources (Uses)					
Bonds issued	-	-	-	39,406	39,406
Transfers out	(137,586)	(100,000)	-	-	(237,586)
Total Other Financing Sources (Uses)	<u>(137,586)</u>	<u>(100,000)</u>	<u>-</u>	<u>39,406</u>	<u>(198,180)</u>
Net Change in Fund Balances	(144,119)	(314,524)	(34,917)	471,248	(22,312)
Fund Balances, January 1	<u>144,119</u>	<u>1,111,843</u>	<u>474,922</u>	<u>-</u>	<u>1,730,884</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 797,319</u>	<u>\$ 440,005</u>	<u>\$ 471,248</u>	<u>\$ 1,708,572</u>

City of Montgomery, Minnesota
Summary Financial Report
Revenues and Expenditures for General Operations
Governmental Funds
For the Years Ended December 31, 2021 and 2020

	Total		Percent Increase (Decrease)
	2021	2020	
Revenues			
Taxes	\$ 1,744,456	\$ 1,710,548	1.98 %
Special assessments	548,266	180,780	203.28
Licenses and permits	174,847	205,214	(14.80)
Intergovernmental	1,089,208	1,235,587	(11.85)
Charges for services	320,424	229,302	39.74
Fines and forfeits	29,007	17,584	64.96
Investment earnings	6,214	16,327	(61.94)
Miscellaneous	280,145	149,751	87.07
Total Revenues	<u>\$ 4,192,567</u>	<u>\$ 3,745,093</u>	11.95 %
Per Capita	<u>\$ 1,290</u>	<u>\$ 1,189</u>	8.54 %
Expenditures			
Current			
General government	\$ 563,606	\$ 636,455	(11.45) %
Public safety	1,479,013	1,311,769	12.75
Streets and highways	434,308	561,856	(22.70)
Culture and recreation	135,702	73,005	85.88
Economic development	147,000	181,763	(19.13)
Miscellaneous	124,302	36,844	237.37
Capital outlay			
General government	3,522	115,836	(96.96)
Public safety	192,538	202,473	(4.91)
Streets and highways	1,957,780	820,770	138.53
Culture and recreation	44,420	57,063	(22.16)
Debt service			
Principal	534,996	607,823	(11.98)
Interest and other costs	140,840	75,920	85.51
Total Expenditures	<u>\$ 5,758,027</u>	<u>\$ 4,681,577</u>	22.99 %
Per Capita	<u>\$ 1,772</u>	<u>\$ 1,486</u>	19.25 %
Total Long-term Indebtedness	\$ 4,783,809	\$ 2,498,805	91.44 %
Per Capita	1,472	793	85.61
General Fund Balance - December 31	\$ 839,689	\$ 894,615	(6.14) %
Per Capita	258	284	(9.00)

The purpose of this report is to provide a summary of financial information concerning the City of Montgomery, Minnesota to interested citizens. The complete financial statements may be examined at 201 Ash Avenue Southwest. Questions about this report should be directed to Brian Heck, City Administrator at 507-364-8888.

OTHER REQUIRED REPORTS

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Montgomery, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montgomery, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
March 24, 2022

**INDEPENDENT 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**

Honorable Mayor and City Council
City of Montgomery, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montgomery, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 24, 2022.

Report on Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-003 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002 to be significant deficiencies.

Report on Compliance and Other Matters

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

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
March 24, 2022



City of Montgomery, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-001	Segregation of Duties
<i>Condition:</i>	During our audit, we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investment transactions and found the City to have limited segregation of duties in these areas as noted below.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.

Internal Control Over Payroll

<i>Cause:</i>	The Clerk/Treasurer controls and maintains the check stock and signature stamp, sets up and maintains employee records, runs the payroll, prepares the checks, posts activity to the general ledger, either issues checks to employees or initiates payroll transfer for direct deposit, reconciles bank accounts, prepares payroll tax returns, and maintains the payroll records. City administrator reviews payroll changes. any wage adjustment is accompanied by a pay adjustment form which is signed by the city administrator and the department head.
<i>Recommendation:</i>	We recommend that in addition to approving payroll disbursements and wage rates the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons. Each year when general wage adjustments are made, Council approves a Resolution with the non-union adjustments. Also, when there is a wage increase due to a step increase, a pay adjustment form is completed and signed by the City Administrator and the department supervisor, these are maintained in employee personnel files.

Updated Progress Since Prior Year:

The City has hired an additional part-time administrative assistant. This position does help with additional separation of duties, there are now three involved in the processing, along with the city Administrator reviewing and approving payroll.

Internal Control Over Disbursements

<i>Cause:</i>	The Clerk/Treasurer controls and maintains the check stock and signature stamp, matches the invoices to purchase orders and receiving reports, initiates and approves wire transfers, maintains accounts payable records, and reconciles the bank accounts. Also, the Utility Billing Clerk opens mail and mails the checks to vendors.
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<i>Recommendation:</i>	It is important that the Council is aware of this condition and monitor all financial information.
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Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

The City has hired an additional part-time administrative assistant. This position does help with additional separation of duties, there are now three involved in the processing of payments and balancing.

City of Montgomery, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2021

Finding

Description

2021-001

Segregation of Duties (Continued)

Internal Control Over Electronic Disbursements and Credit Card Payments

Cause: The Council is not being provided with or required to approve any electronic disbursements or credit card payments.

Recommendation: We recommend that the Council is provided with a listing of all electronic disbursements and credit card payments made throughout the year to review and approve.

Management Response:

The City has taken the step to include all pre-paid transactions e.g. debit, credit and other electronic payments on the monthly list of claims for the council to review and approve along with the listing of regular claims.

Updated Progress Since Prior Year:

The City has hired an additional part-time administrative assistant. This position does help with additional separation of duties, there are now three involved in the processing of payments and balancing.

Internal Control Over Cash Receipts

Cause: The Clerk/Treasurer receives and endorses checks and currency, takes the deposit to the bank, maintains accounts receivable records, and reconciles the bank accounts. The Utility Billing Clerk sets up and maintains customers, opens the mail, receives and endorses checks and currency, prepares the deposit, generates billing statements and posts transactions to the general ledger. The Utility Billing Clerk opens the mail, receives and endorses checks and currency and prepares the deposit.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

The City has hired an additional part-time administrative assistant. This position does help with additional separation of duties, there are now three involved in the processing receipts, deposits and balancing.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

Finding

Description

2021-001

Segregation of Duties (Continued)

Internal Control Over Utility Billing

Cause: The Utility Billing Clerk approves new utility accounts, sets up and maintains customers and rates in the Banyon system, generates and mails billing statements, opens the mail, prepares the bank deposit, makes adjustments to accounts and maintains the receivable subledger, and controls the accuracy and completeness of, as well as, access to the utility billing program and data files. The Clerk/Treasurer takes the deposit to the bank and reconciles the utility subledger with the general ledger.

Recommendation: We recommend attaching billing rate schedules to resolutions for rate changes. It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

The City has hired an additional part-time administrative assistant. This position does help with additional separation of duties, there are now three involved in the processing receipts, deposits and balancing.

Internal Control Over Investment Transactions

Cause: The Administrator receives investment statements in the mail, initiates investment transactions, maintains an investment subledger and spreadsheet. The Clerk/Treasurer maintains and posts activity to the general ledger and reconciles investment accounts.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs and by adopting an investment policy. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

No changes noted since prior year.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-002	Financial Report Preparation
<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
<i>Cause:</i>	From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Banyon receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.
<i>Updated Progress Since Prior Year:</i>	
	No changes noted since prior year.

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City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-003	Material Audit and Accounting Adjustments
<i>Condition:</i>	During our audit, adjustments were needed to record various material transactions and to correct coding and reclassifying amounts to correct funds.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	The financial statements required material audit adjustments to be reasonably stated.
<i>Effect:</i>	This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management Response:</i>	
	The Clerk/Treasurer will review the adjustments to try to eliminate these entries in future.
<i>Updated Progress Since Prior Year:</i>	
	No changes noted since prior year.