



Annual Financial Report

City of Montgomery
Montgomery, Minnesota

For the year ended December 31, 2022



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INTRODUCTORY SECTION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

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City of Montgomery, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2022

ELECTED

Name	Title	Term Expires
Thomas Eisert	Mayor	12/31/2022
Mick McGuire	Council	12/31/2022
Dennis Lambrecht	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, 2022

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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, 2022, 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, 2022, 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, 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'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's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Change in Accounting Principle

As described in Note 7 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 87, Lease, for the year ended December 31, 2022. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.

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 80 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.



Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2023 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 10, 2023



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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, 2022.

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 \$16,943,007 (net position). Of this amount, \$533,814 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 \$347,317 compared to an increase of \$1,850,423 in the prior year. The current year increase is largely attributable to an increase property taxes/tax increments, operating grants and contributions related to COVID-19 funding and business-type charges for services related to utility rate increases.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,653,231, an increase of \$103,322 in comparison with the prior year due to the issuance of new debt for the police building project. The current unassigned fund balance deficit is \$64,639. The remainder of fund balance \$4,717,870 is not available for new spending because it is either 1) nonspendable (\$143,012), 2) restricted (\$3,340,532), or 3) committed (\$1,234,326) 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

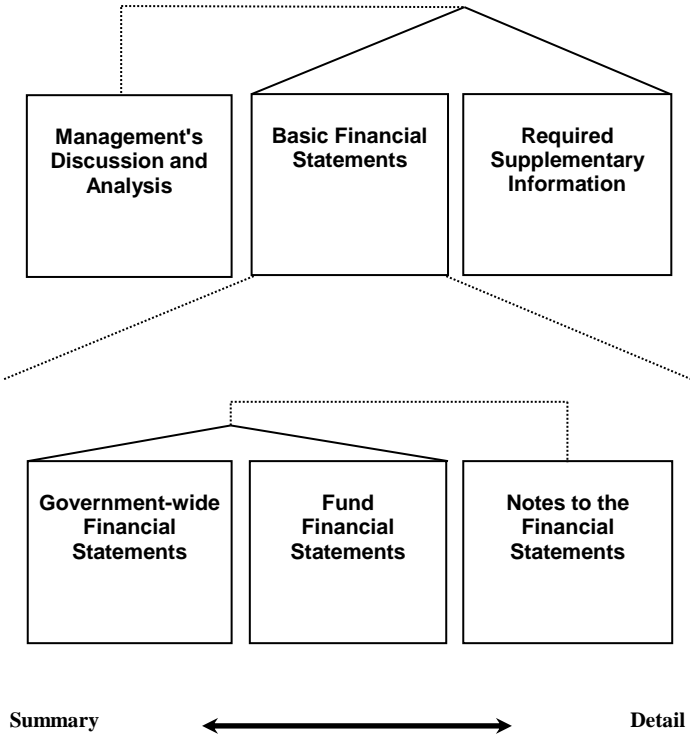


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the 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 water 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 24 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 Police Department Building 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.

Supplementary 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 \$16,943,007 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (81.7 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		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Assets						
Current and						
Other Assets	\$ 6,049,789	\$ 5,936,747	\$ 113,042	\$ 943,454	\$ 1,639,006	\$ (695,552)
Capital Assets	9,670,310	7,491,661	2,178,649	16,252,277	15,678,307	573,970
Total Assets	15,720,099	13,428,408	2,291,691	17,195,731	17,317,313	(121,582)
Deferred Outflows of Resources	1,802,963	1,055,619	747,344	99,067	103,759	(4,692)
Liabilities						
Noncurrent Liabilities	9,939,088	5,699,373	4,239,715	6,651,512	7,660,291	(1,008,779)
Other Liabilities	560,921	447,866	113,055	161,089	172,750	(11,661)
Total Liabilities	10,500,009	6,147,239	4,352,770	6,812,601	7,833,041	(1,020,440)
Deferred Inflows of Resources	276,231	1,224,272	(948,041)	286,012	104,857	181,155
Net Position						
Net Investment In						
Capital Assets	3,838,210	3,456,886	381,324	10,019,848	8,568,504	1,451,344
Restricted						
Debt Service	2,139,602	2,414,877	(275,275)	-	-	-
Economic Development	12,183	11,105	1,078	-	-	-
Equipment Replacement	306,904	280,579	26,325	-	-	-
Park Improvements	81,000	81,000	-	-	-	-
Street Improvements	-	49,708	(49,708)	-	-	-
Tax Increment Financing	4,666	5,330	(664)	-	-	-
Police Operations	3,369	3,369	-	-	-	-
Crime Prevention	3,411	1,409	2,002	-	-	-
Unrestricted	357,477	808,253	(450,776)	176,337	914,670	(738,333)
Total Net Position	\$ 6,746,822	\$ 7,112,516	\$ (365,694)	\$ 10,196,185	\$ 9,483,174	\$ 713,011

An additional portion of the City's net position (15.1 percent) represents resources that are subject to external restrictions on how they may be used. The *unrestricted net position*, (3.2 percent), represents funds that may be used to meet the City's ongoing obligations to citizens and creditors.

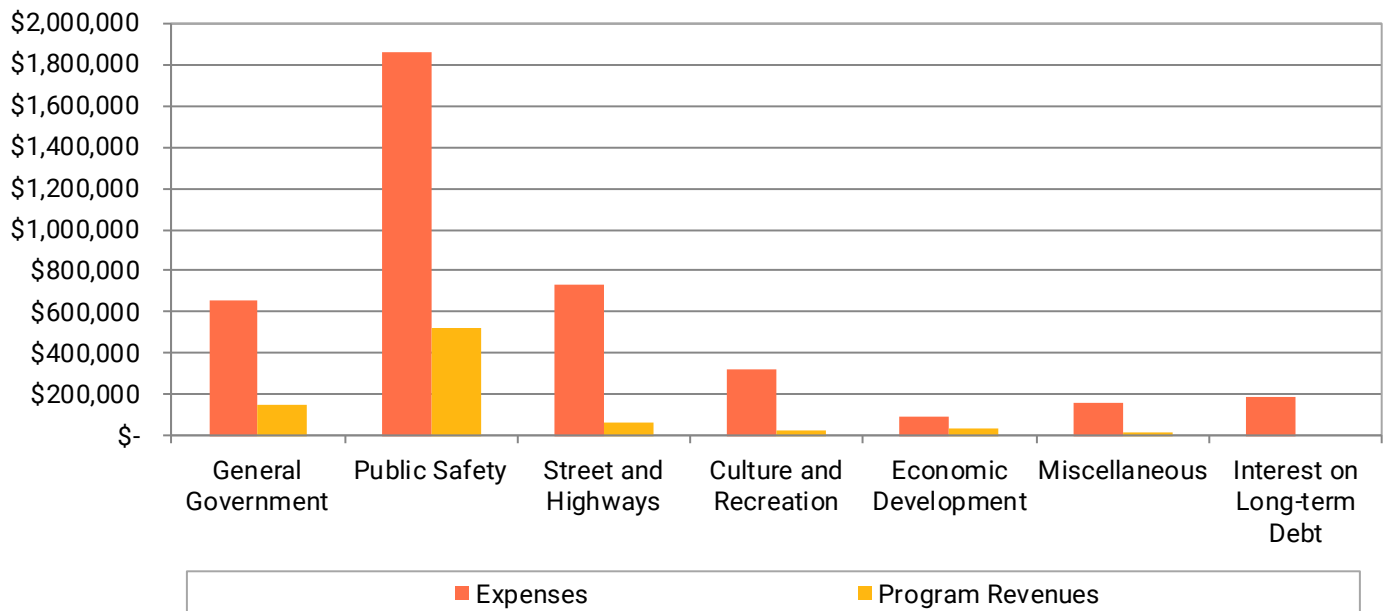
Governmental Activities. Governmental activities decreased the City's net position by \$365,694. Key elements of this decrease are as follows:

City of Montgomery's Changes in Net Position

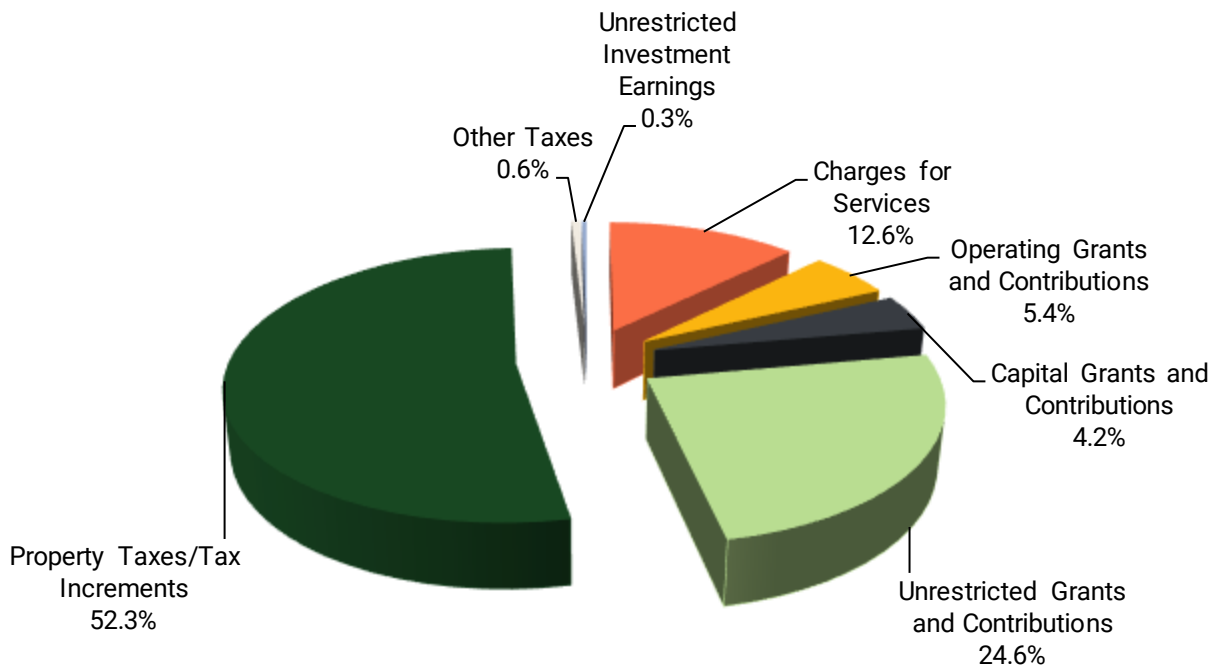
	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Revenues						
Program revenues						
Charges for services	\$ 453,808	\$ 663,782	\$ (209,974)	\$ 2,319,356	\$ 2,144,933	\$ 174,423
Operating grants and contributions	194,578	225,146	(30,568)	192,663	89,909	102,754
Capital grants and contributions	152,893	1,106,680	(953,787)	105,240	271,562	(166,322)
General revenues						
Property taxes/tax increments	1,897,026	1,721,585	175,441	-	-	-
Other taxes	22,939	23,192	(253)	-	-	-
Grants and contributions not restricted to specific programs	890,077	876,914	13,163	-	-	-
Unrestricted investment earnings	10,989	6,214	4,775	74	3,223	(3,149)
Gain on sale of assets	-	24,099	(24,099)	-	-	-
Total Revenues	<u>3,622,310</u>	<u>4,647,612</u>	<u>(1,025,302)</u>	<u>2,617,333</u>	<u>2,509,627</u>	<u>107,706</u>
Expenses						
General government	654,146	580,238	73,908	-	-	-
Public safety	1,857,047	1,596,652	260,395	-	-	-
Streets and highways	727,771	719,573	8,198	-	-	-
Culture and recreation	318,929	211,992	106,937	-	-	-
Economic development	87,898	147,960	(60,062)	-	-	-
Miscellaneous	159,044	124,302	34,742	-	-	-
Interest and other costs	183,169	167,027	16,142	-	-	-
Water utility	-	-	-	750,800	757,186	(6,386)
Sewer utility	-	-	-	892,952	758,955	133,997
Storm water utility	-	-	-	260,570	242,931	17,639
Total Expenses	<u>3,988,004</u>	<u>3,547,744</u>	<u>440,260</u>	<u>1,904,322</u>	<u>1,759,072</u>	<u>145,250</u>
Changes in Net Position	(365,694)	1,099,868	(1,465,562)	713,011	750,555	(37,544)
Net Position - January 1	<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>
Net Position - December 31	<u>\$ 6,746,822</u>	<u>\$ 7,112,516</u>	<u>\$ (365,694)</u>	<u>\$ 10,196,185</u>	<u>\$ 9,483,174</u>	<u>\$ 713,011</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



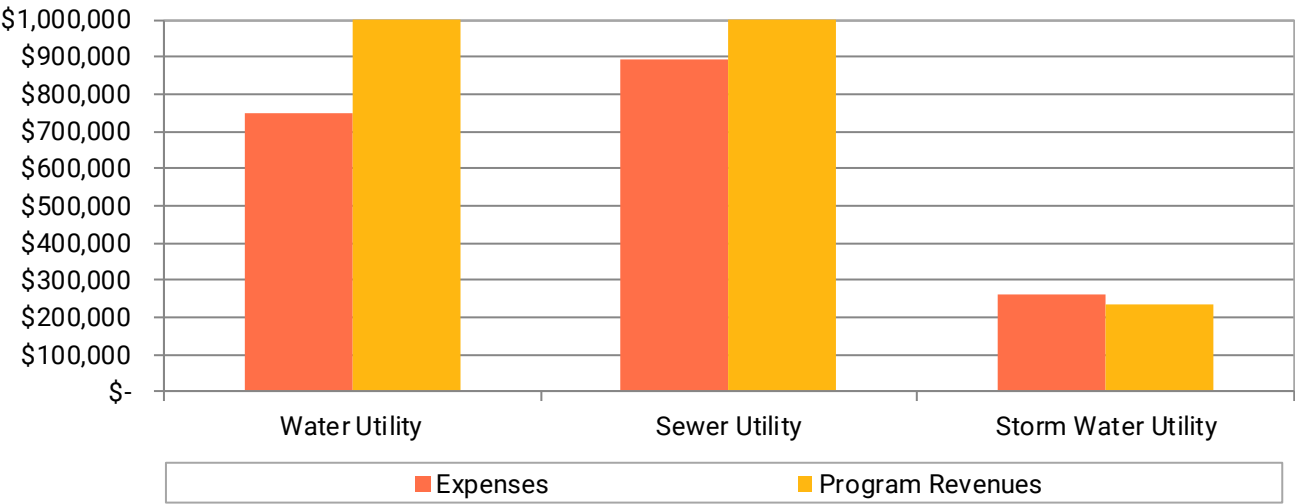
Revenues by Source - Governmental Activities



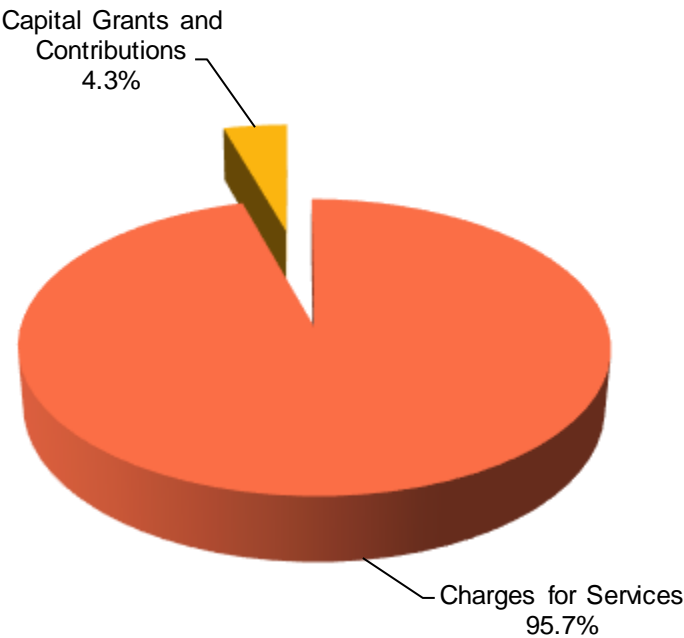
Business-type Activities. Business-type activities increased the City’s net position by \$713,011. Key elements of this increase are as follows:

- The increase in total revenues continue to exceed expenses in current year with a significant increase noted in current year charges for services of \$174,423. This can be attributed to an increase in utility rates during the current year.

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 \$713,527. 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 (23.3) percent of fund expenditures, while total fund balance represents (25.9) percent of that same amount.

The fund balance of the City's General fund decreased by \$126,162 during the current fiscal year mainly due to an increase in public safety and culture and recreation expenditures of \$144,986 and \$43,761, respectively, due to increased staffing costs.

The *Debt Service fund* has a total fund balance of \$1,560,695, 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 \$147,877 which is mainly attributable to the regularly scheduled debt payments and draw down of available fund balance.

The *Capital Projects fund* has a total fund balance deficit of \$357,600 which was reduced by \$138,000 with a transfer from the Debt Service fund as budgeted.

The *Police Department Building fund* has a total fund balance of \$1,084,220 which is to be used for the new police department building. Costs during the year amount to \$1,447,804 were funded by a bond proceeds of \$2,573,000 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 \$176,337. The total increase in net position for the funds was \$713,011. 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 decrease in fund balance of \$45,780 in 2022. Revenues were over expectations by \$142,213, expenditures were over budget by \$212,595 and transfers out were over budget by \$10,000, causing a decrease in fund balance of \$126,162 in 2022.

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, 2022, amounts to \$25,922,587 (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 11.9 percent (a 29.1 percent increase for governmental activities and a 3.7 percent increase for business-type activities).

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

- Construction in progress on the police department building project totaled \$1,394,804.
- The completion of the 2021 street project with total project cost of \$4,628,915.
- Construction in progress on the 2023 street project totaled \$304,226.
- The completion of the well #5 improvement project totaled \$62,930.
- The completion of the water tower improvement project totaled \$695,893.
- The installation of the public works roof for \$56,470.
- The purchase of the various wastewater treatment plant equipment totaling \$180,129.

Additional information on the City's capital assets can be found in Note 3D starting on page 57 of this report.

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

	Governmental Activities			Business-type Activities		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Land	\$ 782,325	\$ 782,325	\$ -	\$ 428,414	\$ 428,414	\$ -
Buildings	1,026,132	981,691	44,441	6,542,237	6,840,625	(298,388)
Improvement Other than Building	244,684	235,950	8,734	-	-	-
Machinery and Equipment	279,131	326,592	(47,461)	275,131	92,212	182,919
Infrastructure	5,243,000	2,683,142	2,559,858	9,003,045	6,631,431	2,371,614
Vehicles	353,470	402,210	(48,740)	3,450	4,350	(900)
Construction in progress	1,741,568	2,079,751	(338,183)	-	1,681,275	(1,681,275)
Total	<u>\$ 9,670,310</u>	<u>\$ 7,491,661</u>	<u>\$ 2,178,649</u>	<u>\$ 16,252,277</u>	<u>\$ 15,678,307</u>	<u>\$ 573,970</u>

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$10,552,045. Of this amount, \$4,031,000 is special assessment debt, \$6,166,045 is general obligation revenue debt, \$355,000 is revenue debt and \$2,679,226 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		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
G.O. Improvement Bonds	\$ 4,031,000	\$ 4,190,100	\$ (159,100)	\$ -	\$ -	\$ -
General Obligation Revenue Bonds	-	-	-	6,166,045	7,322,943	(1,156,898)
Revenue Bonds	355,000	440,000	(85,000)	-	-	-
Notes	2,679,226	153,709	2,525,517	-	-	-
Total	<u>\$ 7,065,226</u>	<u>\$ 4,783,809</u>	<u>\$ 2,281,417</u>	<u>\$ 6,166,045</u>	<u>\$ 7,322,943</u>	<u>\$ (1,156,898)</u>

The City's total debt increased by \$1,124,519, or 9.3 percent during the current fiscal year. The key factor in this increase was the issuance of new debt in the amount of \$2,573,000 to fund the police department building project, offset by the retirement of principal in the amount of \$1,448,481.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3.0 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 \$8,011,683. 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 60 this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Le Sueur County is currently 5.3 percent, which has increased from 4.3 in prior year. This compares unfavorably to the State's average unemployment rate of 3.0 percent and to the national average rate of 3.3 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the City's budget for the 2023 fiscal year.

The general property tax levy increased 12.9 percent in 2023 over the 2022 levy.

Budgeted for 2023 there is a 5 percent increase for residential water rates and commercial water rates will increase \$.075 per 1,000 gallons. Storm water has a budgeted 10 percent increase for 2023.

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, 2022

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City of Montgomery, Minnesota
Statement of Net Position
December 31, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 4,799,520	\$ 444,379	\$ 5,243,899
Receivables			
Delinquent taxes	23,535	-	23,535
Accounts, net of allowances	81,772	199,985	281,757
Lease receivable	-	281,520	281,520
Notes, net of allowance	31,495	-	31,495
Special assessments	784,787	-	784,787
Intergovernmental	82,521	2,887	85,408
Prepaid items	143,012	14,683	157,695
Pension asset	103,147	-	103,147
Capital assets			
Nondepreciable assets	2,523,893	428,414	2,952,307
Depreciable assets, net of accumulated depreciation	7,146,417	15,823,863	22,970,280
Total Assets	<u>15,720,099</u>	<u>17,195,731</u>	<u>32,915,830</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>1,802,963</u>	<u>99,067</u>	<u>1,902,030</u>
Liabilities			
Accounts payable	387,131	95,737	482,868
Accrued interest payable	75,832	58,032	133,864
Accrued salaries payable	42,577	7,320	49,897
Unearned revenue	55,381	-	55,381
Noncurrent liabilities			
Due within one year			
Long-term liabilities	536,187	812,695	1,348,882
Due in more than one year			
Long-term liabilities	6,828,564	5,548,568	12,377,132
Net pension liability	2,574,337	290,249	2,864,586
Total Liabilities	<u>10,500,009</u>	<u>6,812,601</u>	<u>17,312,610</u>
Deferred Inflows of Resources			
Deferred lease resources	-	279,134	279,134
Deferred pension resources	276,231	6,878	283,109
Total Deferred Inflows of Resources	<u>276,231</u>	<u>286,012</u>	<u>562,243</u>
Net Position			
Net investment in capital assets	3,838,210	10,019,848	13,858,058
Restricted			
Debt service	2,139,602	-	2,139,602
Economic development	12,183	-	12,183
Park dedication	81,000	-	81,000
Equipment replacement	306,904	-	306,904
Tax increment financing	4,666	-	4,666
Police operations	3,369	-	3,369
Crime prevention	3,411	-	3,411
Unrestricted	357,477	176,337	533,814
Total Net Position	<u>\$ 6,746,822</u>	<u>\$ 10,196,185</u>	<u>\$ 16,943,007</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, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 654,146	\$ 133,474	\$ 2,643	\$ 12,900
Public safety	1,857,047	285,938	130,761	104,003
Streets and highways	727,771	14,188	28,644	19,480
Culture and recreation	318,929	5,716	850	16,510
Economic development	87,898	-	31,680	-
Miscellaneous	159,044	14,492	-	-
Interest and other costs	183,169	-	-	-
Total Governmental Activities	<u>3,988,004</u>	<u>453,808</u>	<u>194,578</u>	<u>152,893</u>
Business-type Activities				
Water utility	750,800	1,055,850	3,465	45,240
Sewer utility	892,952	1,031,079	188,925	60,000
Storm water utility	260,570	232,427	273	-
Total Business-type Activities	<u>1,904,322</u>	<u>2,319,356</u>	<u>192,663</u>	<u>105,240</u>
Total Primary Government	<u>\$ 5,892,326</u>	<u>\$ 2,773,164</u>	<u>\$ 387,241</u>	<u>\$ 258,133</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
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
\$ (505,129)		\$ (505,129)
(1,336,345)		(1,336,345)
(665,459)		(665,459)
(295,853)		(295,853)
(56,218)		(56,218)
(144,552)		(144,552)
(183,169)		(183,169)
<u>(3,186,725)</u>		<u>(3,186,725)</u>
	\$ 353,755	353,755
	387,052	387,052
	<u>(27,870)</u>	<u>(27,870)</u>
	<u>712,937</u>	<u>712,937</u>
<u>(3,186,725)</u>	<u>712,937</u>	<u>(2,473,788)</u>
1,668,977	-	1,668,977
192,261	-	192,261
35,788	-	35,788
1,437	-	1,437
21,502	-	21,502
890,077	-	890,077
10,989	74	11,063
<u>2,821,031</u>	<u>74</u>	<u>2,821,105</u>
(365,694)	713,011	347,317
<u>7,112,516</u>	<u>9,483,174</u>	<u>16,595,690</u>
<u>\$ 6,746,822</u>	<u>\$ 10,196,185</u>	<u>\$ 16,943,007</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, 2022

City of Montgomery, Minnesota

Balance Sheet
Governmental Funds
December 31, 2022

	General	Debt Service	Capital Projects	Police Department Building	Other Governmental Funds	Total
Assets						
Cash and temporary investments	\$ 649,659	\$ 1,560,695	\$ (357,600)	\$ 1,313,768	\$ 1,632,998	\$ 4,799,520
Receivables						
Delinquent taxes	23,535	-	-	-	-	23,535
Accounts, net of allowances	-	-	-	-	81,772	81,772
Notes, net of allowance	-	-	-	-	31,495	31,495
Special assessments	464	654,739	-	-	129,584	784,787
Intergovernmental	81,380	-	-	-	1,141	82,521
Prepaid items	70,223	-	-	-	72,789	143,012
Total Assets	\$ 825,261	\$ 2,215,434	\$ (357,600)	\$ 1,313,768	\$ 1,949,779	\$ 5,946,642
Liabilities						
Accounts payable	\$ 56,846	\$ -	\$ -	\$ 229,548	\$ 100,737	\$ 387,131
Accrued salaries payable	30,889	-	-	-	11,688	42,577
Unearned revenue	-	-	-	-	55,381	55,381
Total Liabilities	87,735	-	-	229,548	167,806	485,089
Deferred Inflows of Resources						
Unavailable revenue						
Delinquent taxes	23,535	-	-	-	-	23,535
Special assessments	464	654,739	-	-	129,584	784,787
Total Deferred Inflows of Resources	23,999	654,739	-	-	129,584	808,322
Fund Balances						
Nonspendable	70,223	-	-	-	72,789	143,012
Restricted	-	1,560,695	-	1,084,220	695,617	3,340,532
Committed	-	-	-	-	1,234,326	1,234,326
Unassigned	643,304	-	(357,600)	-	(350,343)	(64,639)
Total Fund Balances	713,527	1,560,695	(357,600)	1,084,220	1,652,389	4,653,231
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 825,261	\$ 2,215,434	\$ (357,600)	\$ 1,313,768	\$ 1,949,779	\$ 5,946,642

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, 2022

	<u>Primary Government</u>
Amounts reported for governmental activities in the statement of net position are different because	
Total Fund Balances - Governmental Funds	\$ 4,653,231
Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	9,670,310
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.	
Long-term liabilities at year-end consist of	
Compensated absences payable	(173,866)
Bonds payable	(4,386,000)
Bond premiums, net of accumulated amortization	(125,659)
Net pension liability	(2,471,190)
Notes payable	(2,679,226)
Long-term assets are not available to pay current-period expenditures and, therefore, are delayed in the funds.	
Delinquent taxes receivable	23,535
Special assessments receivable	784,787
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	1,802,963
Deferred inflows of pension resources	(276,231)
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(75,832)</u>
Total Net Position - Governmental Activities	<u><u>\$ 6,746,822</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, 2022

	General	Debt Service	Capital Projects	Police Department Building	Other Governmental Funds	Total
Revenues						
Taxes	\$ 1,676,162	\$ 192,261	\$ -	\$ -	\$ 57,290	\$ 1,925,713
Special assessments	-	134,335	-	-	27,580	161,915
Licenses and permits	118,418	-	-	-	-	118,418
Intergovernmental	1,020,734	-	-	-	41,885	1,062,619
Charges for services	96,571	-	-	-	179,889	276,460
Fines and forfeits	20,528	-	-	-	-	20,528
Investment earnings	1,023	-	-	1,745	8,221	10,989
Miscellaneous	40,810	20,000	-	-	129,100	189,910
Total Revenues	<u>2,974,246</u>	<u>346,596</u>	<u>-</u>	<u>1,745</u>	<u>443,965</u>	<u>3,766,552</u>
Expenditures						
Current						
General government	601,092	-	-	-	-	601,092
Public safety	1,343,229	-	-	-	250,815	1,594,044
Streets and highways	464,187	-	-	-	-	464,187
Culture and recreation	178,742	-	-	-	3,215	181,957
Economic development	12,753	-	-	-	74,185	86,938
Miscellaneous	80,422	-	-	-	78,622	159,044
Capital outlay						
General government	2,909	-	-	-	43,724	46,633
Public safety	36,954	-	-	1,394,804	30,997	1,462,755
Streets and highways	-	-	-	-	1,064,609	1,064,609
Culture and recreation	30,120	-	-	-	82,755	112,875
Debt service						
Principal	5,000	244,100	-	-	42,483	291,583
Interest and other	-	112,373	-	-	5,140	117,513
Note issuance costs	-	-	-	53,000	-	53,000
Total Expenditures	<u>2,755,408</u>	<u>356,473</u>	<u>-</u>	<u>1,447,804</u>	<u>1,676,545</u>	<u>6,236,230</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>218,838</u>	<u>(9,877)</u>	<u>-</u>	<u>(1,446,059)</u>	<u>(1,232,580)</u>	<u>(2,469,678)</u>
Other Financing Sources (Uses)						
Note issued	-	-	-	2,573,000	-	2,573,000
Transfers in	-	-	138,000	-	345,000	483,000
Transfers out	(345,000)	(138,000)	-	-	-	(483,000)
Total Other Financing Sources (Uses)	<u>(345,000)</u>	<u>(138,000)</u>	<u>138,000</u>	<u>2,573,000</u>	<u>345,000</u>	<u>2,573,000</u>
Net Change in Fund Balances	(126,162)	(147,877)	138,000	1,126,941	(887,580)	103,322
Fund Balances, January 1	<u>839,689</u>	<u>1,708,572</u>	<u>(495,600)</u>	<u>(42,721)</u>	<u>2,539,969</u>	<u>4,549,909</u>
Fund Balances, December 31	<u>\$ 713,527</u>	<u>\$ 1,560,695</u>	<u>\$ (357,600)</u>	<u>\$ 1,084,220</u>	<u>\$ 1,652,389</u>	<u>\$ 4,653,231</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, 2022

	<u>Primary Government</u>
Amounts reported for governmental activities in the statement of activities are different because	
Net Change in Fund Balances - Governmental Funds	\$ 103,322
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	2,510,497
Depreciation expense	(331,848)
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	291,583
Debt issued or incurred	(2,573,000)
Premium on bonds issued, net of amortization expense	3,747
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.	(16,403)
Long-term pension activity is not reported in governmental funds.	
Pension expense	(221,252)
Direct aid contributions	23,941
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	(162,435)
Property taxes	(5,748)
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>11,902</u>
Change in Net Position - Governmental Activities	<u>\$ (365,694)</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, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,626,944	\$ 1,626,944	\$ 1,676,162	\$ 49,218
Licenses and permits	103,150	103,150	118,418	15,268
Intergovernmental	1,000,789	1,000,789	1,020,734	19,945
Charges for services	61,500	61,500	96,571	35,071
Fines and forfeits	16,500	16,500	20,528	4,028
Investment revenue	2,500	2,500	1,023	(1,477)
Miscellaneous	20,650	20,650	40,810	20,160
Total Revenues	<u>2,832,033</u>	<u>2,832,033</u>	<u>2,974,246</u>	<u>142,213</u>
Expenditures				
Current				
General government	501,183	501,183	601,092	(99,909)
Public safety	1,200,690	1,200,690	1,343,229	(142,539)
Streets and highways	493,239	493,239	464,187	29,052
Culture and recreation	146,631	146,631	178,742	(32,111)
Economic development	-	-	12,753	(12,753)
Miscellaneous	129,570	129,570	80,422	49,148
Capital outlay				
General government	6,000	6,000	2,909	3,091
Public safety	45,000	45,000	36,954	8,046
Culture and recreation	18,500	18,500	30,120	(11,620)
Debt service				
Principal	2,000	2,000	5,000	(3,000)
Total Expenditures	<u>2,542,813</u>	<u>2,542,813</u>	<u>2,755,408</u>	<u>(212,595)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	289,220	289,220	218,838	(70,382)
Other Financing Sources (Uses)				
Transfers out	<u>(335,000)</u>	<u>(335,000)</u>	<u>(345,000)</u>	<u>(10,000)</u>
Net Change in Fund Balances	(45,780)	(45,780)	(126,162)	(80,382)
Fund Balances, January 1	<u>839,689</u>	<u>839,689</u>	<u>839,689</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 793,909</u>	<u>\$ 793,909</u>	<u>\$ 713,527</u>	<u>\$ (80,382)</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, 2022

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Storm Water Utility	Total
Assets				
Current Assets				
Cash and temporary investments	\$ (314,612)	\$ 530,283	\$ 228,708	\$ 444,379
Receivables				
Accounts	89,803	85,348	24,834	199,985
Leases	20,400	-	-	20,400
Intergovernmental	1,299	1,588	-	2,887
Prepaid items	5,954	8,425	304	14,683
Advances to other funds	250,000	-	-	250,000
Total Current Assets	<u>52,844</u>	<u>625,644</u>	<u>253,846</u>	<u>932,334</u>
Noncurrent Assets				
Advances to other funds	250,000	-	-	250,000
Lease receivable	261,120	-	-	261,120
Capital assets at cost				
Land	160,000	268,414	-	428,414
Buildings	3,392,049	9,056,859	-	12,448,908
Infrastructure	8,384,234	3,840,509	2,666,797	14,891,540
Machinery and equipment	311,261	555,809	15,564	882,634
Motor vehicles	1,500	1,500	1,500	4,500
Less accumulated depreciation	(5,090,667)	(6,405,486)	(907,566)	(12,403,719)
Total Capital Assets	<u>7,158,377</u>	<u>7,317,605</u>	<u>1,776,295</u>	<u>16,252,277</u>
Total Noncurrent Assets	<u>7,669,497</u>	<u>7,317,605</u>	<u>1,776,295</u>	<u>16,763,397</u>
Total Assets	<u>7,722,341</u>	<u>7,943,249</u>	<u>2,030,141</u>	<u>17,695,731</u>
Deferred Outflows of Resources				
Deferred pension resources	38,063	37,952	23,052	99,067
Liabilities				
Current Liabilities				
Accounts payable	19,051	69,407	7,279	95,737
Advances from other funds	-	250,000	-	250,000
Accrued interest payable	39,051	13,033	5,948	58,032
Accrued salaries payable	3,061	3,061	1,198	7,320
Compensated absences payable	6,090	6,090	3,055	15,235
Bonds payable	574,644	174,500	48,316	797,460
Total Current Liabilities	<u>641,897</u>	<u>516,091</u>	<u>65,796</u>	<u>1,223,784</u>
Noncurrent Liabilities				
Compensated absences payable	13,826	13,826	3,980	31,632
Advances from other funds	-	250,000	-	250,000
Net pension liability	111,789	111,240	67,220	290,249
Bonds payable	3,402,684	1,305,532	808,720	5,516,936
Total Noncurrent Liabilities	<u>3,528,299</u>	<u>1,680,598</u>	<u>879,920</u>	<u>6,088,817</u>
Total Liabilities	<u>4,170,196</u>	<u>2,196,689</u>	<u>945,716</u>	<u>7,312,601</u>
Deferred Inflows of Resources				
Deferred lease resources	279,134	-	-	279,134
Deferred pension resources	2,760	2,651	1,467	6,878
Total Deferred Inflows of Resources	<u>281,894</u>	<u>2,651</u>	<u>1,467</u>	<u>286,012</u>
Net Position				
Net investment in capital assets	3,181,049	5,851,912	986,887	10,019,848
Unrestricted	127,265	(70,051)	119,123	176,337
Total Net Position	<u>\$ 3,308,314</u>	<u>\$ 5,781,861</u>	<u>\$ 1,106,010</u>	<u>\$ 10,196,185</u>

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, 2022

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Storm Water Utility	Total
Operating Revenues				
Charges for services	\$ 1,036,490	\$ 1,030,906	\$ 232,427	\$ 2,299,823
Other income	28,526	618	273	29,417
Total Operating Revenues	<u>1,065,016</u>	<u>1,031,524</u>	<u>232,700</u>	<u>2,329,240</u>
Operating Expenses				
Personal services	173,593	174,687	104,824	453,104
Supplies	65,517	81,614	2,353	149,484
Other services and charges	126,594	200,277	98,749	425,620
Utilities	42,656	75,678	-	118,334
Depreciation	258,424	328,199	40,145	626,768
Total Operating Expenses	<u>666,784</u>	<u>860,455</u>	<u>246,071</u>	<u>1,773,310</u>
Operating Income (Loss)	<u>398,232</u>	<u>171,069</u>	<u>(13,371)</u>	<u>555,930</u>
Nonoperating Revenues (Expenses)				
Interest income	15	59	-	74
Federal grants - ARPA	-	188,480	-	188,480
Amortization of premium	9,161	2,895	-	12,056
Interest and other costs	(98,878)	(35,392)	(14,499)	(148,769)
Total Nonoperating Revenues (Expenses)	<u>(89,702)</u>	<u>156,042</u>	<u>(14,499)</u>	<u>51,841</u>
Income (Loss) Before Capital Contributions	308,530	327,111	(27,870)	607,771
Capital Contributions				
Connection fees	<u>45,240</u>	<u>60,000</u>	<u>-</u>	<u>105,240</u>
Change in Net Position	353,770	387,111	(27,870)	713,011
Net Position, January 1	<u>2,954,544</u>	<u>5,394,750</u>	<u>1,133,880</u>	<u>9,483,174</u>
Net Position, December 31	<u>\$ 3,308,314</u>	<u>\$ 5,781,861</u>	<u>\$ 1,106,010</u>	<u>\$ 10,196,185</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, 2022

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Storm Water Utility	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,036,554	\$ 1,031,784	\$ 231,050	\$ 2,299,388
Payments to suppliers and vendors	(231,839)	(306,498)	(100,241)	(638,578)
Payments to and on behalf of employees	(147,602)	(148,838)	(87,557)	(383,997)
Other receipts	28,526	618	273	29,417
Net Cash Provided (Used) by Operating Activities	685,639	577,066	43,525	1,306,230
Cash Flows from Noncapital Financing Activities				
Federal grants - ARPA	-	188,480	-	188,480
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(837,684)	(215,087)	(193,564)	(1,246,335)
Connection fees	45,240	60,000	-	105,240
Principal paid on bonds	(520,150)	(636,748)	-	(1,156,898)
Interest paid on bonds	(109,945)	(40,003)	(18,756)	(168,704)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,422,539)	(831,838)	(212,320)	(2,466,697)
Cash Flows from Investing Activities				
Interest received on cash and temporary investments	15	59	-	74
Net Increase (Decrease) in Cash and Cash Equivalents	(736,885)	(66,233)	(168,795)	(971,913)
Cash and Cash Equivalents, January 1	422,273	596,516	397,503	1,416,292
Cash and Cash Equivalents, December 31	\$ (314,612)	\$ 530,283	\$ 228,708	\$ 444,379
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used) Operating Activities				
Operating income (loss)	\$ 398,232	\$ 171,069	\$ (13,371)	\$ 555,930
Adjustments to reconcile operating income (loss) to net cash provided by (used) operating activities				
Depreciation	258,424	328,199	40,145	626,768
(Increase) decrease in assets				
Accounts receivable	1,877	178	(1,377)	678
Lease receivable	(281,520)	-	-	(281,520)
Intergovernmental	573	700	-	1,273
Prepaid items	702	2,485	21	3,208
(Increase) decrease in deferred outflows of resources				
Deferred pension resources	2,118	2,239	335	4,692
Increase (decrease) in liabilities				
Accounts payable	2,226	48,586	840	51,652
Accrued wages payable	1,110	1,110	(1)	2,219
Compensated absences payable	1,851	1,851	2,047	5,749
Net pension liability	58,751	58,614	37,061	154,426
Increase (decrease) in deferred inflows of resources				
Deferred lease resources	279,134	-	-	279,134
Deferred pension resources	(37,839)	(37,965)	(22,175)	(97,979)
Net Cash Provided by (Used) Operating Activities	\$ 685,639	\$ 577,066	\$ 43,525	\$ 1,306,230
Schedule of Noncash Investing, Capital and Financing Activities				
Capital assets acquired on account	\$ 6,484	\$ 2,744	\$ 6,129	\$ 15,357
Amortization of bond premium	\$ (9,161)	\$ (2,895)	\$ -	\$ (12,056)

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, 2022

Note 1: Summary of Significant Accounting Policies

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, 2022

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 *Police Department Building fund* accounts for the costs associated with the police department capital project.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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, 2022

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 City 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, 2022

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 2022. 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 and EDA funds at December 31, 2022, were \$10,886 and \$136,782, respectively.

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.

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."

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Lease Receivable

The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

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, 2022

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
	GERP	PEPFP		Pension Expense
Pension Expense	\$ 165,143	\$ 267,878	\$ 127,768	\$ 560,789

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, 2022, is \$220,733. 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 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 two additional items which qualify for reporting in this category, deferred pension resources and leases. Deferred pension resources and leases are reported only in the statements of net position and results from actuarial calculations and lease receivables, respectively.

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.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 2: Stewardship, Compliance and Accountability (Continued)

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2022, expenditures exceeded appropriations in the following fund:

Fund	Budget	Actual	Excess of Expenditures Over Appropriations
General	\$ 2,542,813	\$ 2,755,408	\$ 212,595

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

C. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2022:

Fund	Amount
Major	
Capital Projects	\$ 357,600
Nonmajor	
Facility Maintenance	38,417
2023 Street Improvements	311,926

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.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

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 \$4,866,141 and the bank balance was \$5,362,011. Of the bank balance, \$909,247 was covered by federal depository insurance. The remaining balance is covered by collateral held by the City's agent in the City's name.

Investments

Primary Government

As of December 31, 2022, 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>\$ 377,758</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.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

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	\$ 4,866,141
Investments	<u>377,758</u>
Total Cash and Temporary Investments	<u>\$ 5,243,899</u>

B. Leases Receivable

The City leases Antenna Facilities to T-Mobile Central, LLC. The lease commenced on April 1, 2005 and was originally for 5 years then the agreement will automatically renew for up to five separate additional periods of five years, which the City is expected to do. Original lease payments were \$1,100 a month, increasing 10.0 percent each year. As of December 31, 2022, the City's receivable was \$281,520 which is partially offset by a deferred inflow of \$279,134.

C. Notes Receivable

The City issued notes to renovate and remodel residential and business properties through the Small Cities Loan Grant Program. The balance of the remaining note at December 31, 2022, is \$21,991. 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 \$21,991.

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 \$3,666. The City also issued a note through the City's Business Assistance Revolving loan program on January 14, 2022 for various improvements. The note was for \$30,000 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 \$27,829.

The City currently has a court ordered lien on a property totaling \$136,782 for hazardous building removals. Due to the uncertainty of collection, there is an amount of the allowance for doubtful accounts for the lien of \$136,782.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

D. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2022 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	2,079,751	2,380,778	(2,718,961)	1,741,568
Total Capital Assets not Being Depreciated	2,862,076	2,380,778	(2,718,961)	2,523,893
Capital Assets Being Depreciated				
Buildings	1,928,967	85,270	-	2,014,237
Improvements other than buildings	710,834	22,950	-	733,784
Infrastructure	6,299,279	2,718,961	-	9,018,240
Machinery and equipment	766,666	21,499	-	788,165
Vehicles	2,003,478	-	(26,059)	1,977,419
Total Capital Assets Being Depreciated	11,709,224	2,848,680	(26,059)	14,531,845
Less Accumulated Depreciation				
Buildings	(947,276)	(40,829)	-	(988,105)
Improvements other than buildings	(474,884)	(14,216)	-	(489,100)
Infrastructure	(3,616,137)	(159,103)	-	(3,775,240)
Machinery and equipment	(440,074)	(68,960)	-	(509,034)
Vehicles	(1,601,268)	(48,740)	26,059	(1,623,949)
Total Accumulated Depreciation	(7,079,639)	(331,848)	26,059	(7,385,428)
Total Capital Assets Being Depreciated, Net	4,629,585	2,516,832	-	7,146,417
Governmental Activities Capital Assets, Net	<u>\$ 7,491,661</u>	<u>\$ 4,897,610</u>	<u>\$ (2,718,961)</u>	<u>\$ 9,670,310</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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	1,681,275	228,679	(1,909,954)	-
Total Capital Assets not being Depreciated	<u>2,109,689</u>	<u>228,679</u>	<u>(1,909,954)</u>	<u>428,414</u>
Capital Assets Being Depreciated				
Buildings	12,448,908	-	-	12,448,908
Infrastructure	12,222,763	2,668,777	-	14,891,540
Machinery and equipment	669,398	213,236	-	882,634
Vehicles	4,500	-	-	4,500
Total Capital Assets Being Depreciated	<u>25,345,569</u>	<u>2,882,013</u>	<u>-</u>	<u>28,227,582</u>
Less Accumulated Depreciation For				
Buildings	(5,608,283)	(298,388)	-	(5,906,671)
Infrastructure	(5,591,332)	(297,163)	-	(5,888,495)
Machinery and equipment	(577,186)	(30,317)	-	(607,503)
Vehicles	(150)	(900)	-	(1,050)
Total Accumulated Depreciation	<u>(11,776,951)</u>	<u>(626,768)</u>	<u>-</u>	<u>(12,403,719)</u>
Total Capital Assets Being Depreciated, Net	<u>13,568,618</u>	<u>2,255,245</u>	<u>-</u>	<u>15,823,863</u>
Business-type Activities Capital Assets, Net	<u>\$ 15,678,307</u>	<u>\$ 2,483,924</u>	<u>\$ (1,909,954)</u>	<u>\$ 16,252,277</u>

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

Governmental Activities	
General Government	\$ 20,386
Public Safety	66,346
Streets and Highways	191,529
Culture and Recreation	52,627
Economic Development	960
Total Depreciation Expense - Governmental Activities	<u>\$ 331,848</u>
Business-type Activities	
Water Utility	\$ 258,424
Sewer Utility	328,199
Storm Water Utility	40,145
Total Depreciation Expense - Business-type Activities	<u>\$ 626,768</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

Construction Commitments

The City has active construction projects as of December 31, 2022. At year end, the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
2021 Street Improvement	\$ 4,302,121	\$ 179,276
Police Department Building	1,149,986	784,984

E. Interfund Receivables, Payables and Transfers

Advances to/from other funds for the year ended December 31, 2022:

Receivable Fund	Payable Fund	Amount
Water Utility	Sewer Utility	<u>\$ 500,000</u>

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. An amount of \$250,000 is anticipated to be repaid in 2023.

The following transfers were made for the year ended December 31, 2022:

	Transfers In		
	Capital Projects fund	Nonmajor funds	Total
Transfer Out			
General fund	\$ -	\$ 345,000	\$ 345,000
Debt Service fund	138,000	-	138,000
Total	<u>\$ 138,000</u>	<u>\$ 345,000</u>	<u>\$ 483,000</u>

Transfers occurred during 2022 for the following reasons:

- There was a transfer in the amount of \$345,000 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 \$138,000 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, 2022

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	\$ 120,000
G.O. Improvement Bonds of 2015A	1,700,000	2.00 - 3.00	05/14/15	02/01/31	1,091,000
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>\$ 4,031,000</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
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	299,500	49,844	349,344
2028 - 2032	1,461,800	143,057	1,604,857
2033 - 2037	<u>1,015,000</u>	<u>39,644</u>	<u>1,054,644</u>
Total	<u>\$ 4,031,000</u>	<u>\$ 500,044</u>	<u>\$ 4,531,044</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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. Water Revenue Notes of 2002B (PFA)	\$ 642,162	3.18 %	09/18/03	08/20/23	\$ 43,000
G.O. Water Revenue Note of 2004 (PFA)	358,044	2.84	05/24/04	08/20/23	24,045
G.O. Water and Sewer Refunding Bonds of 2010A	725,000	1.50 - 4.30	07/28/10	02/01/25	235,000
G.O. Refunding Bonds of 2012A	700,000	2.00 - 3.55	02/23/12	02/01/26	240,000
G.O. Sewer Revenue of 2015A	505,000	2.00 - 3.00	05/14/15	02/01/31	324,000
G.O. Water and Sewer Refunding Bonds of 2016A	3,095,000	2.50 - 2.75	12/15/16	02/01/29	1,925,000
G.O. Water and Sewer Refunding Bonds of 2017A	2,205,000	2.00 - 2.25	11/08/17	02/01/28	1,385,000
G.O. Water, Sewer and Storm 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>\$ 6,166,045</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	Storm Sewer
Revenues	\$ 1,036,490	\$ 1,030,906	\$ 232,427
Principal and Interest	630,095	676,751	18,756
Percentage of Revenues	60.8%	65.6%	8.1%

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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
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	673,130	56,250	729,380
2028 - 2032	1,651,880	107,792	1,759,672
2033 - 2037	719,387	28,469	747,856
Total	<u>\$ 6,166,045</u>	<u>\$ 608,397</u>	<u>\$ 6,774,442</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>\$ 355,000</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
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>\$ 355,000</u>	<u>\$ 24,807</u>	<u>\$ 379,807</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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, to finance the purchase of a plow truck and to finance the police department building project. 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. The police building note payments are made semi-annually at a 3.40 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	\$ 16,250
Plow truck	220,978	3.88	07/06/20	07/06/24	89,976
Police department finance purchase	2,573,000	3.40	08/11/22	02/01/33	<u>2,573,000</u>
Total Notes Payable					<u><u>\$ 2,679,226</u></u>

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

Year Ending December 31	Notes Governmental Activities		
	Principal	Interest	Total
2023	\$ 49,132	\$ 88,543	\$ 137,675
2024	145,844	88,462	234,306
2025	103,000	83,419	186,419
2026	102,250	80,070	182,320
2027	105,000	76,602	181,602
2028 - 2032	585,000	326,349	911,349
2033	<u>1,589,000</u>	<u>27,013</u>	<u>1,616,013</u>
Total	<u><u>\$ 2,679,226</u></u>	<u><u>\$ 770,458</u></u>	<u><u>\$ 3,449,684</u></u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
General Obligation Special					
Assessment Bonds	\$ 4,190,100	\$ -	\$ (159,100)	\$ 4,031,000	\$ 332,900
Revenue Bonds	440,000	-	(85,000)	355,000	85,000
Total Bonds Payable	4,630,100	-	(244,100)	4,386,000	417,900
Notes Payable	153,709	2,573,000	(47,483)	2,679,226	49,132
Compensated Absences					
Payable	185,768	98,388	(110,290)	173,866	69,155
Bond Premiums	129,406	-	(3,747)	125,659	-
Governmental Activity					
Long-term Liabilities	<u>\$ 5,098,983</u>	<u>\$ 2,671,388</u>	<u>\$ (405,620)</u>	<u>\$ 7,364,751</u>	<u>\$ 536,187</u>
Business-type Activities					
Bonds Payable					
General Obligation Bond					
Revenue Bonds	\$ 7,322,943	\$ -	\$ (1,156,898)	\$ 6,166,045	\$ 797,460
Compensated Absences					
Payable	41,118	20,589	(14,840)	46,867	15,235
Bond Premiums	160,407	-	(12,056)	148,351	-
Business-type Activity					
Long-term Liabilities	<u>\$ 7,524,468</u>	<u>\$ 20,589</u>	<u>\$ (1,183,794)</u>	<u>\$ 6,361,263</u>	<u>\$ 812,695</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 3: Detailed Notes on all Funds (Continued)

G. Components of Fund Balance

At December 31, 2022, 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	Police Department Building	Other Governmental Funds	Total
Nonspendable						
Prepaid Items	\$ 70,223	\$ -	\$ -	\$ -	\$ 72,789	\$ 143,012
Restricted						
Debt Service	\$ -	\$ 1,560,695	\$ -	\$ -	\$ -	\$ 1,560,695
Economic Development	-	-	-	-	12,183	12,183
Park Dedication	-	-	-	-	81,000	81,000
Police Building Improvements	-	-	-	1,084,220	-	1,084,220
Street Improvements	-	-	-	-	284,084	284,084
Equipment Replacement	-	-	-	-	306,904	306,904
Tax Increment Financing	-	-	-	-	4,666	4,666
Police Operations	-	-	-	-	3,369	3,369
Crime Prevention	-	-	-	-	3,411	3,411
Total Restricted	\$ -	\$ 1,560,695	\$ -	\$ 1,084,220	\$ 695,617	\$ 3,340,532
Committed						
Economic Development	\$ -	\$ -	\$ -	\$ -	\$ 85,547	\$ 85,547
Communications	-	-	-	-	33,565	33,565
Park Improvements	-	-	-	-	159,289	159,289
Street Improvements	-	-	-	-	848,164	848,164
Equipment Replacement	-	-	-	-	68,708	68,708
Ambulance	-	-	-	-	39,053	39,053
Total Committed	\$ -	\$ -	\$ -	\$ -	\$ 1,234,326	\$ 1,234,326
Unassigned	\$ 643,304	\$ -	\$ (357,600)	\$ -	\$ (350,343)	\$ (64,639)

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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, 2022

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 2022 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, 2022, 2021 and 2020 were \$60,994, \$60,768 and \$50,363, 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 2022 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, 2022, 2021 and 2020 were \$94,669, \$89,315 and \$81,056, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$823,683 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 \$24,137. The net pension liability was measured as of June 30, 2022, 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, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0104 percent at the end of the measurement period and .0101 percent for the beginning of the period.

City's Proportionate Share of the Net Pension Liability	\$ 823,683
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City	<u>24,137</u>
Total	<u><u>\$ 847,820</u></u>

For the year ended December 31, 2022, the City recognized pension expense of \$161,536 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized \$3,607 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.

At December 31, 2022, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 6,881	\$ 8,484
Changes in Actuarial Assumptions	181,199	2,996
Net Difference Between Projected and Actual Earnings on Plan Investments	19,982	-
Changes in Proportion	47,449	-
Contributions Paid to PERA Subsequent to the Measurement Date	<u>34,698</u>	<u>-</u>
Total	<u><u>\$ 290,209</u></u>	<u><u>\$ 11,480</u></u>

The \$34,698 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 103,428
2024	89,335
2025	(23,223)
2026	74,491

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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

Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$2,040,903 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0469 percent at the end of the measurement period and .0395 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. 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, 2021. 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.

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, 2022, the City recognized pension expense of \$250,601 for its proportionate share of the Police and Fire Fund's pension expense. In addition, the City recognized an additional \$17,277 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.

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 \$4,221 for the year ended December 31, 2022 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, 2022, 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	\$ 116,773	\$ 9,186
Changes in Actuarial Assumptions	1,159,325	37,904
Net Difference Between Projected and Actual Earnings on Plan Investments	107,321	-
Changes in Proportion	107,497	8,262
Contributions Paid to PERA Subsequent to the Measurement Date	52,131	-
Total	<u>\$ 1,543,047</u>	<u>\$ 55,352</u>

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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

The \$52,131 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2023	\$ 287,063
2024	306,863
2025	259,139
2026	412,692
2027	169,807

E. Long-Term Expected Return on Investment

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 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
	<hr/>	
Total	<u>100.00 %</u>	

F. Actuarial Assumptions

The total pension liability in the June 30, 2022, 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 1.00 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 27 years of service. 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, 2022

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

Actuarial assumptions used in the June 30, 2022 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 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

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

Police and Fire Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.50% to 5.40%

Changes in Plan Provisions

- There have been no changes since the prior valuation.

G. Discount Rate

The discount rate used to measure the total pension liability in 2022 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 was 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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

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	\$ 1,301,051	\$ 823,683	\$ 432,168

	City Proportionate Share of NPL		
	1 Percent Decrease (4.50%)	Current (5.40%)	1 Percent Increase (6.40%)
Police and Fire Fund	\$ 3,088,645	\$ 2,040,903	\$ 1,193,866

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.

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, 2022, the plan covered 26 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.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 5: Defined Benefit Pension Plan - Fire Relief Association

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 \$31,972 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2022, 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, 2022 were \$31,972. The City's contributions were equal to the required contributions as set by state statute. In addition, the City made voluntary contributions \$20,828 to the plan.

D. Pension Costs

At December 31, 2022, the City reported a net pension asset of \$103,147 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. 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, 2022	\$ 817,302	\$ 839,198	\$ (21,896)
Changes for the Year			
Service cost	50,544	-	50,544
Interest on pension liability	37,991	-	37,991
Actuarial experience (gains)/losses	(106,115)	-	(106,115)
Changes in assumptions	9,527	-	9,527
Changes in benefit terms	48,999	-	48,999
Contributions - state and local	-	52,800	(52,800)
Net investment income	-	71,122	(71,122)
Benefit payments	(47,200)	(47,200)	-
Administrative expenses	-	(1,725)	1,725
Total Net Changes	(6,254)	74,997	(81,251)
Ending Balance December 31, 2022	<u>\$ 811,048</u>	<u>\$ 914,195</u>	<u>\$ (103,147)</u>

For the year ended December 31, 2022, the City recognized pension expense of \$127,768.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 5: Defined Benefit Pension Plan - Fire Relief Association

At December 31, 2022, 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	\$ -	\$ 148,792
Changes in Assumptions	15,974	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	67,485
Contributions to Plan Subsequent to the Measurement Date	52,800	-
Total	<u>\$ 68,774</u>	<u>\$ 216,277</u>

Deferred outflows of resources totaling \$52,800 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, 2023. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

2023	\$ (36,509)
2024	(50,919)
2025	(37,582)
2026	(28,283)
2027	(18,516)
Thereafter	(28,494)

E. Actuarial Assumption

The total pension liability at December 31, 2022 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Discount Rate	4.00%
Expected Return on Plan Assets	4.00%
Inflation Rate	2.25%
Mortality	Pub-2010 Public Safety Employee mortality tables with projected mortality improvements based on scale MP-2020
Index Rate for 20-Year Municipal Bonds	1.84%

The following changes in actuarial assumptions and plan provisions occurred in 2022:

Changes in Actuarial Assumptions

- The expected investment return and discount rate decreased from 4.50 percent to 4.00 percent to reflect updated capital market assumptions.
- The disability, mortality, and withdrawal assumptions were updated from the rates used in the July 1, 2019 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2021 Minnesota PERA Police & Fire Plan actuarial valuation.

Changes in Plan Provisions

- The lump sum benefit amount increased from \$2,800 to \$3,000.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 5: Defined Benefit Pension Plan - Fire Relief Association

F. Discount Rate

The discount rate used to measure the total pension liability was 4.00 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 one percent lower or one percent higher than the current discount rate:

	1 Percent Decrease (3.00%)	Current (4.00%)	1 Percent Increase (5.00%)
Defined Benefit Plan	\$ (87,152)	\$ (103,147)	\$ (119,117)

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 %	4.42 %
Fixed Income	35.0	1.00
Cash and Equivalents	5.0	(0.33)
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, 2022, 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.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

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, 2022, the City is under the legal debt margin.

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 2022 was \$889,673 which accounted for 30.0 percent of General fund revenues.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2022

Note 7: Tax Abatements

As of December 31, 2022, 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: Change in Accounting Principles

For the year end December 31, 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the City's 2022 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2022

City of Montgomery, Minnesota
Required Supplementary Information
December 31, 2022

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
6/30/2022	0.0104 %	\$ 823,683	\$ 24,137	\$ 847,820	\$ 749,383	109.9 %	76.7 %
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)
12/31/2022	\$ 60,994	\$ 60,994	\$ -	\$ 813,257	7.5 %
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
Required Supplementary Information
December 31, 2022

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021

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
Required Supplementary Information
December 31, 2022

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

Changes in Plan Provisions

2022 - There were no changes in plan provisions since the previous valuation.

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
Required Supplementary Information
December 31, 2022

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
6/30/2022	0.0469 %	\$ 2,040,903	\$ 89,069	\$ 2,129,972	\$ 480,785	424.5 %	70.5 %
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)
12/31/2022	\$ 94,669	\$ 94,669	\$ -	\$ 534,854	17.70 %
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
Required Supplementary Information
December 31, 2022

Notes to the Required Supplementary Information - Police and Fire Fund

Changes in Actuarial Assumptions

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021. The single discount rate changed from 6.50 percent to 5.40 percent.

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
Required Supplementary Information
December 31, 2022

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

Changes in Plan Provisions

2022 - There were no changes in plan provisions since the previous valuation.

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
Required Supplementary Information
December 31, 2022

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

	2022 (Fire Relief Report Date 2021)	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	\$ 50,544	\$ 49,432	\$ 45,556	\$ 41,514	\$ 40,501
Interest on pension liability (asset)	37,991	36,575	34,697	28,341	25,991
Changes of benefit terms	48,999	-	144,640	53,230	-
Differences between expected and actual experience	(106,115)	-	(90,273)	-	-
Changes of assumptions	9,527	-	12,385	-	-
Benefit payments	(47,200)	(64,096)	-	-	(41,000)
Net Change in Total Pension Liability	(6,254)	21,911	147,005	123,085	25,492
Total Pension Liability - January 1	817,302	795,391	648,386	525,301	499,809
Total Pension Liability - December 31 (a)	\$ 811,048	\$ 817,302	\$ 795,391	\$ 648,386	\$ 525,301
Plan Fiduciary Net Position					
Contributions - state and local	52,800	52,541	48,816	37,847	\$ 38,272
Net investment income	71,122	80,910	98,746	(40,160)	60,260
Benefit payments	(47,200)	(64,096)	-	-	(41,000)
Administrative expenses	(1,725)	(1,725)	(1,725)	(1,725)	(1,725)
Net Change in Plan Fiduciary Net Position	74,997	67,630	145,837	(4,038)	55,807
Plan Fiduciary Net Position - January 1	839,198	771,568	625,731	629,769	573,962
Plan Fiduciary Net Position - December 31 (b)	\$ 914,195	\$ 839,198	\$ 771,568	\$ 625,731	\$ 629,769
Fire Relief's Net Pension Liability (Asset) - December 31 (a-b)	\$ (103,147)	\$ (21,896)	\$ 23,823	\$ 22,655	\$ (104,468)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a)	112.7%	102.7%	97.0%	96.5%	119.9%
Covered-Employee Payroll	N/A	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	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

2022 - The expected investment return and discount rate decreased from 4.50 percent to 4.00 percent to reflect updated capital market assumptions. The disability, mortality, and withdrawal assumptions were updated from the rates used in the July 1, 2019 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2021 Minnesota PERA Police & Fire Plan actuarial valuation.

2021 - No changes.

2020 - The inflation assumption was decreased from 2.50 percent to 2.25 percent. 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.

City of Montgomery, Minnesota
Required Supplementary Information
December 31, 2022

Notes to the Required Supplementary Information - Fire Relief Association (Continued)

Changes in Plan Provisions

2022 - The lump sum benefit amount increased from \$2,800 to \$3,000

2021 - The lump sum benefit amount increased from \$2,400 to \$2,800.

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.

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/2022	\$ 31,972	\$ 52,800	\$ (20,828)
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, 2022

City of Montgomery, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2022

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total
Assets			
Cash and temporary investments	\$ 161,740	\$ 1,471,258	\$ 1,632,998
Receivables			
Accounts, net of allowance	81,772	-	81,772
Notes, net of allowance	31,495	-	31,495
Special assessments	-	129,584	129,584
Intergovernmental	-	1,141	1,141
Prepaid items	3,289	69,500	72,789
	<u>3,289</u>	<u>69,500</u>	<u>72,789</u>
Total Assets	<u>\$ 278,296</u>	<u>\$ 1,671,483</u>	<u>\$ 1,949,779</u>
Liabilities			
Accounts payable	\$ 23,305	\$ 77,432	\$ 100,737
Accrued salaries payable	11,688	-	11,688
Unearned revenue	55,381	-	55,381
Total Liabilities	<u>90,374</u>	<u>77,432</u>	<u>167,806</u>
Deferred Inflows of Resources			
Unavailable revenue			
Special assessments	-	129,584	129,584
	<u>-</u>	<u>129,584</u>	<u>129,584</u>
Fund Balances			
Nonspendable	3,289	69,500	72,789
Restricted	23,629	671,988	695,617
Committed	161,004	1,073,322	1,234,326
Unassigned	-	(350,343)	(350,343)
Total Fund Balances	<u>187,922</u>	<u>1,464,467</u>	<u>1,652,389</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 278,296</u>	<u>\$ 1,671,483</u>	<u>\$ 1,949,779</u>

City of Montgomery, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2022

	Nonmajor Special Revenue	Nonmajor Capital Projects	Total
Revenues			
Taxes	\$ 57,290	\$ -	\$ 57,290
Special assessments	-	27,580	27,580
Intergovernmental	29,125	12,760	41,885
Charges for services			
Public safety	179,889	-	179,889
Investment earnings	-	8,221	8,221
Miscellaneous	12,355	116,745	129,100
Total Revenues	<u>278,659</u>	<u>165,306</u>	<u>443,965</u>
Expenditures			
Current			
Public safety	250,815	-	250,815
Culture and recreation	3,215	-	3,215
Economic development	74,185	-	74,185
Miscellaneous	78,622	-	78,622
Capital outlay			
General government	-	43,724	43,724
Public safety	1,861	29,136	30,997
Streets and highways	-	1,064,609	1,064,609
Culture and recreation	13,566	69,189	82,755
Debt service			
Principal	-	42,483	42,483
Interest and other	-	5,140	5,140
Total Expenditures	<u>422,264</u>	<u>1,254,281</u>	<u>1,676,545</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(143,605)	(1,088,975)	(1,232,580)
Other Financing Sources (Uses)			
Transfers in	-	345,000	345,000
Net Change in Fund Balances	(143,605)	(743,975)	(887,580)
Fund Balances, January 1	<u>331,527</u>	<u>2,208,442</u>	<u>2,539,969</u>
Fund Balances , December 31	<u>\$ 187,922</u>	<u>\$ 1,464,467</u>	<u>\$ 1,652,389</u>

City of Montgomery, Minnesota
Nonmajor Special Revenue Funds
Combining Balance Sheet
December 31, 2022

	204	205	206	211	214	216
	Ambulance	Economic Development Authority	Police Forfeitures	Crime Prevention	Memorial Park	SCDP Grant 2009
Assets						
Cash and temporary investments	\$ (7,903)	\$ 54,612	\$ 3,369	\$ 3,411	\$ 2,839	\$ 8,605
Receivables						
Accounts, net of allowance	60,270	-	-	-	-	-
Notes, net of allowance	-	31,495	-	-	-	-
Prepaid items	3,289	-	-	-	-	-
Total Assets	\$ 55,656	\$ 86,107	\$ 3,369	\$ 3,411	\$ 2,839	\$ 8,605
Liabilities						
Accounts payable	\$ 1,626	\$ 560	\$ -	\$ -	\$ -	\$ -
Accrued salaries payable	11,688	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Total Liabilities	13,314	560	-	-	-	-
Fund Balances						
Nonspendable	3,289	-	-	-	-	-
Restricted	-	-	3,369	3,411	-	8,605
Committed	39,053	85,547	-	-	2,839	-
Total Fund Balances	42,342	85,547	3,369	3,411	2,839	8,605
Total Liabilities and Fund Balances	\$ 55,656	\$ 86,107	\$ 3,369	\$ 3,411	\$ 2,839	\$ 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
\$ 33,182	\$ 3,578	\$ 3,876	\$ 790	\$ 55,381	\$ 161,740
21,502	-	-	-	-	81,772
-	-	-	-	-	31,495
-	-	-	-	-	3,289
<u>\$ 54,684</u>	<u>\$ 3,578</u>	<u>\$ 3,876</u>	<u>\$ 790</u>	<u>\$ 55,381</u>	<u>\$ 278,296</u>
\$ 21,119	\$ -	\$ -	\$ -	\$ -	\$ 23,305
-	-	-	-	-	11,688
-	-	-	-	55,381	55,381
<u>21,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,381</u>	<u>90,374</u>
-	-	-	-	-	3,289
-	3,578	3,876	790	-	23,629
33,565	-	-	-	-	161,004
<u>33,565</u>	<u>3,578</u>	<u>3,876</u>	<u>790</u>	<u>-</u>	<u>187,922</u>
<u>\$ 54,684</u>	<u>\$ 3,578</u>	<u>\$ 3,876</u>	<u>\$ 790</u>	<u>\$ 55,381</u>	<u>\$ 278,296</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, 2022

	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	825	-	-	-	-	28,300
Charges for services						
Public safety	179,889	-	-	-	-	-
Miscellaneous						
Donations	1,500	-	-	3,725	-	-
Other	-	880	-	-	3,750	-
Total Revenues	<u>182,214</u>	<u>880</u>	<u>-</u>	<u>3,725</u>	<u>3,750</u>	<u>28,300</u>
Expenditures						
Current						
Public safety	249,092	-	-	1,723	-	-
Culture and recreation	-	-	-	-	3,215	-
Economic development	-	8,011	-	-	-	28,300
Miscellaneous	-	-	-	-	-	-
Capital outlay						
Public safety	1,861	-	-	-	-	-
Culture and recreation	-	-	-	-	13,566	-
Total Expenditures	<u>250,953</u>	<u>8,011</u>	<u>-</u>	<u>1,723</u>	<u>16,781</u>	<u>28,300</u>
Net Change in Fund Balances	(68,739)	(7,131)	-	2,002	(13,031)	-
Fund Balances, January 1	<u>111,081</u>	<u>92,678</u>	<u>3,369</u>	<u>1,409</u>	<u>15,870</u>	<u>8,605</u>
Fund Balances, December 31	<u>\$ 42,342</u>	<u>\$ 85,547</u>	<u>\$ 3,369</u>	<u>\$ 3,411</u>	<u>\$ 2,839</u>	<u>\$ 8,605</u>

217 Communications	218 SMIF Grant	227 TIF #8 Assisted Living Facility	228 TIF #8 Medical Clinic	230 American Rescue Plan Act Grant	Total
\$ -	\$ -	\$ 25,767	\$ 10,021	\$ -	\$ 35,788
21,502	-	-	-	-	21,502
-	-	-	-	-	29,125
-	-	-	-	-	179,889
-	2,500	-	-	-	7,725
-	-	-	-	-	4,630
<u>21,502</u>	<u>2,500</u>	<u>25,767</u>	<u>10,021</u>	<u>-</u>	<u>278,659</u>
-	-	-	-	-	250,815
-	-	-	-	-	3,215
-	1,422	25,982	10,470	-	74,185
78,622	-	-	-	-	78,622
-	-	-	-	-	1,861
-	-	-	-	-	13,566
<u>78,622</u>	<u>1,422</u>	<u>25,982</u>	<u>10,470</u>	<u>-</u>	<u>422,264</u>
(57,120)	1,078	(215)	(449)	-	(143,605)
<u>90,685</u>	<u>2,500</u>	<u>4,091</u>	<u>1,239</u>	<u>-</u>	<u>331,527</u>
<u>\$ 33,565</u>	<u>\$ 3,578</u>	<u>\$ 3,876</u>	<u>\$ 790</u>	<u>\$ -</u>	<u>\$ 187,922</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, 2022
(With Comparative Totals for Year Ended December 31, 2021)

	2022				2021
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget	Amounts
Revenues					
Intergovernmental					
State - other	\$ 2,000	\$ 2,000	\$ 825	\$ (1,175)	\$ 446
Charges for services	337,642	337,642	179,889	(157,753)	221,722
Miscellaneous					
Contributions and donations	-	-	1,500	1,500	45
Refunds and reimbursements	-	-	-	-	743
Total Revenues	<u>339,642</u>	<u>339,642</u>	<u>182,214</u>	<u>(157,428)</u>	<u>222,956</u>
Expenditures					
Current					
Public safety					
Personal services	171,457	171,457	169,472	1,985	192,470
Supplies	34,100	34,100	33,470	630	20,393
Other services and charges	34,650	34,650	46,150	(11,500)	35,677
Capital outlay					
Public safety	-	-	1,861	(1,861)	286
Total Expenditures	<u>240,207</u>	<u>240,207</u>	<u>250,953</u>	<u>(10,746)</u>	<u>248,826</u>
Net Change in Fund Balances	99,435	99,435	(68,739)	(168,174)	(25,870)
Fund Balances, January 1	<u>111,081</u>	<u>111,081</u>	<u>111,081</u>	<u>-</u>	<u>136,951</u>
Fund Balances, December 31	<u>\$ 210,516</u>	<u>\$ 210,516</u>	<u>\$ 42,342</u>	<u>\$ (168,174)</u>	<u>\$ 111,081</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, 2022

	203	422	423	424	421
	Fire Equipment	Park Improvements	Equipment Replacement	Facility Maintenance	Street Improvements
Assets					
Cash and temporary investments	\$ 346,904	\$ 237,450	\$ 28,708	\$ (38,417)	\$ 847,023
Receivables					
Special assessments	-	-	-	-	129,584
Intergovernmental	-	-	-	-	1,141
Prepaid items	69,500	-	-	-	-
Total Assets	\$ 416,404	\$ 237,450	\$ 28,708	\$ (38,417)	\$ 977,748
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Inflows of Resources					
Unavailable revenue					
Special assessments	-	-	-	-	129,584
Fund Balances					
Nonspendable	69,500	-	-	-	-
Restricted	306,904	81,000	-	-	-
Committed	40,000	156,450	28,708	-	848,164
Unassigned	-	-	-	(38,417)	-
Total Fund Balances	416,404	237,450	28,708	(38,417)	848,164
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 416,404	\$ 237,450	\$ 28,708	\$ (38,417)	\$ 977,748

426	428	
<u>2021 Street Improvements</u>	<u>2023 Street Improvements</u>	<u>Total</u>
\$ 306,597	\$ (257,007)	\$ 1,471,258
-	-	129,584
-	-	1,141
-	-	69,500
<u>\$ 306,597</u>	<u>\$ (257,007)</u>	<u>\$ 1,671,483</u>
 <u>\$ 22,513</u>	 <u>\$ 54,919</u>	 <u>\$ 77,432</u>
 <u>-</u>	 <u>-</u>	 <u>129,584</u>
-	-	69,500
284,084	-	671,988
-	-	1,073,322
-	(311,926)	(350,343)
<u>284,084</u>	<u>(311,926)</u>	<u>1,464,467</u>
 <u>\$ 306,597</u>	 <u>\$ (257,007)</u>	 <u>\$ 1,671,483</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, 2022

	203	422	423	424	421
	Fire Equipment	Park Improvements	Equipment Replacement	Facility Maintenance	Street Improvements
Revenues					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ 27,580
Intergovernmental - state	-	12,760	-	-	-
Investment earnings	447	-	-	-	-
Miscellaneous					
Donations	102,503	-	-	12,900	-
Other	-	-	842	-	500
Total Revenues	<u>102,950</u>	<u>12,760</u>	<u>842</u>	<u>12,900</u>	<u>28,080</u>
Expenditures					
Capital outlay					
General government	-	-	-	43,724	-
Public safety	7,125	-	22,011	-	-
Streets and highways	-	-	14,336	56,470	87,447
Culture and recreation	-	54,191	14,998	-	-
Debt service					
Principal	-	-	42,483	-	-
Interest and other	-	-	5,140	-	-
Total Expenditures	<u>7,125</u>	<u>54,191</u>	<u>98,968</u>	<u>100,194</u>	<u>87,447</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	95,825	(41,431)	(98,126)	(87,294)	(59,367)
Other Financing Sources (Uses)					
Transfers in	<u>10,000</u>	<u>70,000</u>	<u>50,000</u>	<u>25,000</u>	<u>190,000</u>
Net Change in Fund Balances	105,825	28,569	(48,126)	(62,294)	130,633
Fund Balances, January 1	<u>310,579</u>	<u>208,881</u>	<u>76,834</u>	<u>23,877</u>	<u>717,531</u>
Fund Balances, December 31	<u>\$ 416,404</u>	<u>\$ 237,450</u>	<u>\$ 28,708</u>	<u>\$ (38,417)</u>	<u>\$ 848,164</u>

426	428	
2021 Street Improvements	2023 Street Improvements	Total
\$ -	\$ -	\$ 27,580
-	-	12,760
7,774	-	8,221
-	-	115,403
-	-	1,342
<u>7,774</u>	<u>-</u>	<u>165,306</u>
-	-	43,724
-	-	29,136
602,130	304,226	1,064,609
-	-	69,189
-	-	42,483
-	-	5,140
<u>602,130</u>	<u>304,226</u>	<u>1,254,281</u>
(594,356)	(304,226)	(1,088,975)
-	-	345,000
(594,356)	(304,226)	(743,975)
<u>878,440</u>	<u>(7,700)</u>	<u>2,208,442</u>
<u>\$ 284,084</u>	<u>\$ (311,926)</u>	<u>\$ 1,464,467</u>

City of Montgomery, Minnesota
General Fund
Comparative Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and temporary investments	\$ 649,659	\$ 766,288
Investments		
Receivables		
Delinquent taxes	23,535	29,283
Special assessments	464	26,643
Intergovernmental	81,380	101,319
Prepaid Items	<u>70,223</u>	<u>55,635</u>
Total Assets	<u><u>\$ 825,261</u></u>	<u><u>\$ 979,168</u></u>
Liabilities		
Accounts payable	\$ 56,846	\$ 59,590
Due to other governments	-	607
Accrued salaries payable	<u>30,889</u>	<u>23,356</u>
Total Liabilities	<u><u>87,735</u></u>	<u><u>83,553</u></u>
Deferred Inflows of Resources		
Unavailable revenue		
Delinquent taxes	23,535	29,283
Special assessments	464	26,643
Total Deferred Inflows of Resources	<u><u>23,999</u></u>	<u><u>55,926</u></u>
Fund Balances		
Nonspendable	70,223	55,635
Unassigned	<u>643,304</u>	<u>784,054</u>
Total Fund Balances	<u><u>713,527</u></u>	<u><u>839,689</u></u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u><u>\$ 825,261</u></u>	<u><u>\$ 979,168</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, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Actual Amounts	Variance with Final Budget	2021
	Budgeted Amounts Original	Final			Actual Amounts
Revenues					
Taxes					
Property taxes	\$ 1,624,944	\$ 1,624,944	\$ 1,674,725	\$ 49,781	\$ 1,496,261
Payment in lieu of taxes	2,000	2,000	1,437	(563)	1,509
Total taxes	1,626,944	1,626,944	1,676,162	49,218	1,497,770
Licenses and permits					
Business	32,600	32,600	35,615	3,015	19,652
Non-business	70,550	70,550	82,803	12,253	155,195
Total licenses and permits	103,150	103,150	118,418	15,268	174,847
Intergovernmental					
State					
Local government aid	889,200	889,200	889,673	473	876,514
Property tax credits and aids	-	-	404	404	400
Fire aid	27,000	27,000	31,972	4,972	31,800
Police aid	55,000	55,000	63,437	8,437	61,284
Other state aids	7,589	7,589	7,104	(485)	10,304
Total state	978,789	978,789	992,590	13,801	980,302
County					
Highway aid	22,000	22,000	28,144	6,144	24,564
Total intergovernmental	1,000,789	1,000,789	1,020,734	19,945	1,004,866
Charges for services					
General government	2,500	2,500	1,712	(788)	4,800
Public safety	45,000	45,000	79,921	34,921	73,446
Streets and highways	13,500	13,500	13,688	188	20,456
Culture and recreation	500	500	1,250	750	-
Total charges for services	61,500	61,500	96,571	35,071	98,702
Fines and forfeits	16,500	16,500	20,528	4,028	25,638
Investment revenue	2,500	2,500	1,023	(1,477)	2,011
Miscellaneous					
Contributions and donations	1,650	1,650	3,250	1,600	1,600
Refunds and reimbursements	11,000	11,000	21,983	10,983	50,393
Other	8,000	8,000	15,577	7,577	11,575
Total miscellaneous	20,650	20,650	40,810	20,160	63,568
Total Revenues	2,832,033	2,832,033	2,974,246	142,213	2,867,402
Expenditures					
Current					
General government					
Council					
Personal services	13,635	13,635	13,489	146	13,478
Other services and charges	4,880	4,880	4,327	553	991
Total council	18,515	18,515	17,816	699	14,469
Elections					
Personal services	19,329	19,329	8,859	10,470	801
Other services and charges	6,750	6,750	3,055	3,695	140
Total elections	26,079	26,079	11,914	14,165	941
Financial administration					
Personal services	223,367	223,367	286,009	(62,642)	269,580
Supplies	6,250	6,250	5,088	1,162	5,858
Other services and charges	71,520	71,520	110,692	(39,172)	85,329
Total financial administration	301,137	301,137	401,789	(100,652)	360,767
Planning and zoning					
Personal services	96,202	96,202	93,509	2,693	68,954
Other services and charges	59,250	59,250	75,520	(16,270)	118,475
Total planning and zoning	155,452	155,452	169,029	(13,577)	187,429
Total general government	501,183	501,183	601,092	(99,909)	563,606

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, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022		Actual Amounts	Variance with Final Budget	2021
	Budgeted Amounts Original	Final			Actual Amounts
Expenditures (Continued)					
Current (continued)					
Public safety					
Police					
Personal services	\$ 903,249	\$ 903,249	\$ 996,701	\$ (93,452)	\$ 869,407
Supplies	26,250	26,250	41,030	(14,780)	32,373
Other services and charges	131,025	131,025	149,063	(18,038)	164,003
Total police	<u>1,060,524</u>	<u>1,060,524</u>	<u>1,186,794</u>	<u>(126,270)</u>	<u>1,065,783</u>
Fire					
Personal services	95,896	95,896	105,299	(9,403)	110,614
Supplies	9,250	9,250	16,021	(6,771)	13,052
Other services and charges	35,020	35,020	35,066	(46)	40,353
Total fire	<u>140,166</u>	<u>140,166</u>	<u>156,386</u>	<u>(16,220)</u>	<u>164,019</u>
Total public safety	<u>1,200,690</u>	<u>1,200,690</u>	<u>1,343,229</u>	<u>(142,539)</u>	<u>1,229,802</u>
Streets and highways					
Public works					
Personal services	222,789	222,789	227,063	(4,274)	197,408
Supplies	5,000	5,000	4,935	65	4,092
Other services and charges	207,450	207,450	208,043	(593)	190,351
Total public works	<u>435,239</u>	<u>435,239</u>	<u>440,041</u>	<u>(4,802)</u>	<u>391,851</u>
Snow and ice removal					
Personal services	9,000	9,000	2,434	6,566	7,207
Supplies	10,000	10,000	5,532	4,468	6,324
Other services and charges	39,000	39,000	16,180	22,820	15,312
Total snow and ice removal	<u>58,000</u>	<u>58,000</u>	<u>24,146</u>	<u>33,854</u>	<u>28,843</u>
Total streets and highways	<u>493,239</u>	<u>493,239</u>	<u>464,187</u>	<u>29,052</u>	<u>420,694</u>
Culture and recreation					
Parks					
Personal services	78,406	78,406	95,553	(17,147)	76,056
Supplies	8,750	8,750	8,652	98	10,432
Other services and charges	37,500	37,500	50,276	(12,776)	27,812
Total parks	<u>124,656</u>	<u>124,656</u>	<u>154,481</u>	<u>(29,825)</u>	<u>114,300</u>
Library					
Supplies	875	875	1,088	(213)	319
Other services and charges	21,100	21,100	22,798	(1,698)	20,177
Total library	<u>21,975</u>	<u>21,975</u>	<u>23,886</u>	<u>(1,911)</u>	<u>20,496</u>
Total culture and recreation	<u>146,631</u>	<u>146,631</u>	<u>178,742</u>	<u>(32,111)</u>	<u>134,981</u>
Economic development					
Other services and charges	<u>-</u>	<u>-</u>	<u>12,753</u>	<u>(12,753)</u>	<u>9,701</u>
Miscellaneous					
Unallocated					
Other services and charges	<u>129,570</u>	<u>129,570</u>	<u>80,422</u>	<u>49,148</u>	<u>90,816</u>
Total current	<u>2,471,313</u>	<u>2,471,313</u>	<u>2,680,425</u>	<u>(209,112)</u>	<u>2,449,600</u>

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, 2022
(With Comparative Actual Amounts for Year Ended December 31, 2021)

	2022			2021	
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	2021 Actual Amounts
	Original	Final			
Expenditures (Continued)					
Current (continued)					
Capital outlay					
General government	\$ 6,000	\$ 6,000	\$ 2,909	\$ 3,091	\$ 3,021
Public safety	45,000	45,000	36,954	8,046	12,464
Streets and highways	-	-	-	-	3,333
Culture and recreation	18,500	18,500	30,120	(11,620)	12,910
Total capital outlay	69,500	69,500	69,983	(483)	31,728
Debt service					
Principal	2,000	2,000	5,000	(3,000)	5,000
Total Expenditures	2,542,813	2,542,813	2,755,408	(212,595)	2,486,328
Excess (Deficiency) of Revenues Over (Under) Expenditures	289,220	289,220	218,838	(70,382)	381,074
Other Financing Sources (Uses)					
Transfers out	(335,000)	(335,000)	(345,000)	(10,000)	(436,000)
Net Change in Fund Balances	(45,780)	(45,780)	(126,162)	(80,382)	(54,926)
Fund Balances, January 1	839,689	839,689	839,689	-	894,615
Fund Balances, December 31	\$ 793,909	\$ 793,909	\$ 713,527	\$ (80,382)	\$ 839,689

City of Montgomery, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2022

	326	327	328	
	G.O. Refunding Bonds of 2012A	G.O. Improvement Bonds of 2015A	G.O. Improvement Bonds of 2021A	Total
Assets				
Cash and temporary investments	\$ 660,421	\$ 403,006	\$ 497,268	\$ 1,560,695
Receivables				
Special assessments	<u>492</u>	<u>217,244</u>	<u>437,003</u>	<u>654,739</u>
Total Assets	<u><u>\$ 660,913</u></u>	<u><u>\$ 620,250</u></u>	<u><u>\$ 934,271</u></u>	<u><u>\$ 2,215,434</u></u>
Deferred Inflows of Resources				
Unavailable revenue				
Special assessments	\$ 492	\$ 217,244	\$ 437,003	\$ 654,739
Fund Balances				
Restricted	<u>660,421</u>	<u>403,006</u>	<u>497,268</u>	<u>1,560,695</u>
Total Deferred Inflows of Resources and Fund Balances	<u><u>\$ 660,913</u></u>	<u><u>\$ 620,250</u></u>	<u><u>\$ 934,271</u></u>	<u><u>\$ 2,215,434</u></u>

City of Montgomery, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2022

	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	\$ 54,261	\$ -	\$ 192,261
Special assessments	520	43,230	90,585	134,335
Miscellaneous				
Contributions and donations	20,000	-	-	20,000
Total Revenues	<u>158,520</u>	<u>97,491</u>	<u>90,585</u>	<u>346,596</u>
Expenditures				
Debt service				
Principal	140,000	104,100	-	244,100
Interest and other	17,418	30,390	64,565	112,373
Total Expenditures	<u>157,418</u>	<u>134,490</u>	<u>64,565</u>	<u>356,473</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,102	(36,999)	26,020	(9,877)
Other Financing Sources (Uses)				
Transfers out	<u>(138,000)</u>	<u>-</u>	<u>-</u>	<u>(138,000)</u>
Net Change in Fund Balances	(136,898)	(36,999)	26,020	(147,877)
Fund Balances, January 1	<u>797,319</u>	<u>440,005</u>	<u>471,248</u>	<u>1,708,572</u>
Fund Balances, December 31	<u><u>\$ 660,421</u></u>	<u><u>\$ 403,006</u></u>	<u><u>\$ 497,268</u></u>	<u><u>\$ 1,560,695</u></u>

City of Montgomery, Minnesota
Summary Financial Report
Revenues and Expenditures for General Operations
Governmental Funds
For the Years Ended December 31, 2022 and 2021

	Total		Percent Increase (Decrease)
	2022	2021	
Revenues			
Taxes	\$ 1,925,713	\$ 1,744,456	10.39 %
Special assessments	161,915	548,266	(70.47)
Licenses and permits	118,418	174,847	(32.27)
Intergovernmental	1,062,619	1,089,208	(2.44)
Charges for services	276,460	320,424	(13.72)
Fines and forfeits	20,528	29,007	(29.23)
Investment earnings	10,989	6,214	76.84
Miscellaneous	189,910	280,145	(32.21)
Total Revenues	<u>\$ 3,766,552</u>	<u>\$ 4,192,567</u>	(10.16) %
Per Capita	<u>\$ 1,116</u>	<u>\$ 1,290</u>	(13.54) %
Expenditures			
Current			
General government	\$ 601,092	\$ 563,606	6.65 %
Public safety	1,594,044	1,479,013	7.78
Streets and highways	464,187	434,308	6.88
Culture and recreation	181,957	135,702	34.09
Economic development	86,938	147,000	(40.86)
Miscellaneous	159,044	124,302	27.95
Capital outlay			
General government	46,633	3,522	1,224.05
Public safety	1,462,755	192,538	659.72
Streets and highways	1,064,609	1,957,780	(45.62)
Culture and recreation	112,875	44,420	154.11
Debt service			
Principal	291,583	534,996	(45.50)
Interest and other costs	117,513	140,840	(16.56)
Bond issuance costs	53,000	-	N/A
Total Expenditures	<u>\$ 6,236,230</u>	<u>\$ 5,758,027</u>	8.30 %
Per Capita	<u>\$ 1,847</u>	<u>\$ 1,772</u>	4.23 %
Total Long-term Indebtedness	\$ 7,065,226	\$ 4,783,809	47.69 %
Per Capita	2,093	1,472	42.13
General Fund Balance - December 31	\$ 713,527	\$ 839,689	(15.02) %
Per Capita	211	258	(18.22)

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, 2022

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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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 10, 2023.

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 10, 2023

**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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 2023.

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 2022-003 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 2022-01 and 2022-002 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 10, 2023



City of Montgomery, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
2022-001	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.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2022

Finding

Description

2022-001

Segregation of Duties (Continued)

Internal Control Over Disbursements

Cause: 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.

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 of payments and balancing.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2022

Finding

Description

2022-001

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, 2022

Finding

Description

2022-001

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: 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, 2022

<u>Finding</u>	<u>Description</u>
2022-002	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.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2022

<u>Finding</u>	<u>Description</u>
2022-003	Material Audit Adjustments
<i>Condition:</i>	During our audit, adjustments were needed to record and adjust various debt, taxes and assessments, capital assets, grant, transfer and payroll withholding activity.
<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.	