



Annual Financial Report

City of Montrose

Montrose, Minnesota

For the year ended December 31, 2021



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INTRODUCTORY SECTION

CITY OF MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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

ELECTED

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kirby Moynagh	Mayor	12/31/2024
Tom Marszalek	Council Member	12/31/2022
Nicole Andreoff	Council Member	12/31/2024
Sam Solarz	Council Member	12/31/2024
David Paradeise	Council Member	12/31/2022

APPOINTED

<u>Name</u>	<u>Title</u>
Jessica Bonniwell	City Administrator
Michael Sommerfeld	City Clerk/Treasurer

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FINANCIAL SECTION
CITY OF MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Montrose, Minnesota

Report on the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General and Fire Special funds for the year then ended in accordance 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

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 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedule of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios starting on page 78, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects in relation to the basic financial statements as a whole.

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



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Abdo
Minneapolis, Minnesota
May 17, 2022



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Management's Discussion and Analysis

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

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$23,974,079 (net position). Of this amount, \$9,149,768 is unrestricted.
- The City's total net position increased by \$2,028,129. The increase is a result of revenues in excess of expenses.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,574,702, an increase of \$6,427,379 in comparison with the prior year mainly due to the issuance of the 2021A bonds.
- At the end of the current fiscal year, unrestricted fund balance for the General fund was \$1,718,412, or 191.2 percent of total General fund expenditures.
- The City's total debt increased by \$9,403,029 or 207.3 percent during the current fiscal year. The increase was a result of the 2021A debt issuance.

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 shows 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

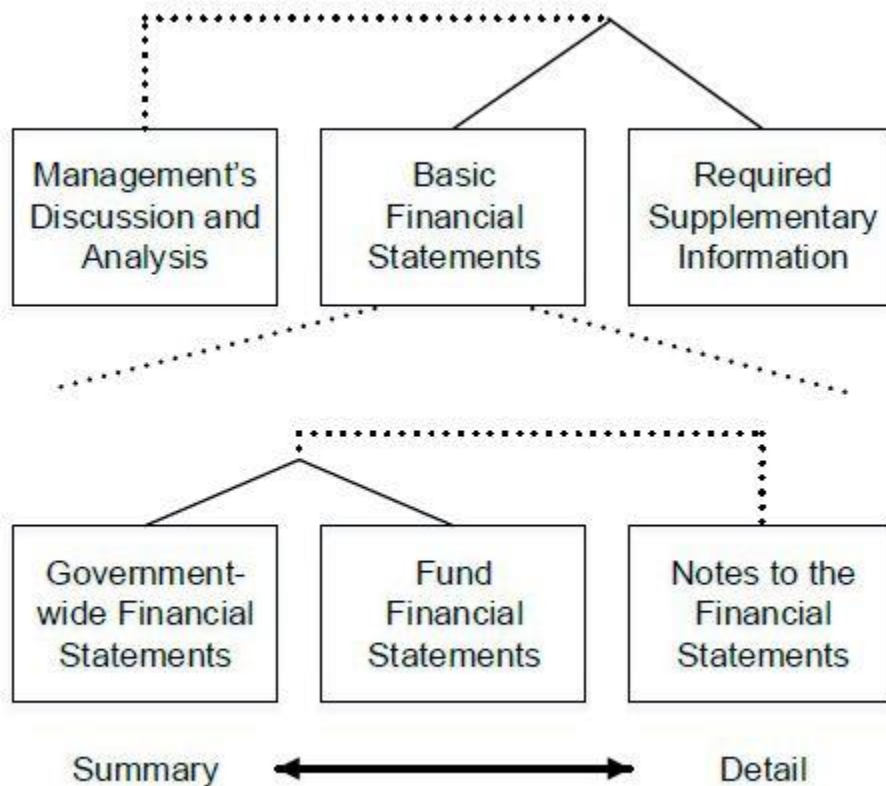


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the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

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

	Fund Financial Statements		
	Government-wide 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"> • Statements of Net Position • Statements of Revenues, Expenses and Changes in Fund Net Position • Statements 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/out flow 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, public works, culture and recreation, economic development and interest on long-term debt. The business-type activities of the City include water, sanitary sewer, refuse, storm water, and wastewater treatment plant utilities.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate Economic Development Authority (EDA) for which the City is financially accountable. The EDA, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements start 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 three categories: governmental funds, proprietary funds and fiduciary 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 government'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 numerous individual governmental funds. 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, Fire Special, Park and Recreation, General Capital Projects, Downtown Improvement and Debt Service funds, 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 and Fire Special fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their budgets.

The basic governmental fund financial statements start 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, sanitary sewer, refuse, storm water, and wastewater treatment plant operations.

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

The basic proprietary fund financial statements start on page 45 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 start on page 49 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 78 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules start on page 84 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 of resources exceeded liabilities and deferred inflows of resources by \$23,974,079 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (57.6 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 Montrose's Summary of Net Position

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Assets						
Current and other assets	\$ 11,023,517	\$ 4,518,015	\$ 6,505,502	\$ 8,869,461	\$ 4,214,777	\$ 4,654,684
Pension asset	349,895	263,963	85,932	-	-	-
Capital assets	7,750,672	7,381,579	369,093	11,002,713	11,122,827	(120,114)
Total Assets	<u>19,124,084</u>	<u>12,163,557</u>	<u>6,960,527</u>	<u>19,872,174</u>	<u>15,337,604</u>	<u>4,534,570</u>
Deferred Outflows of Resources	<u>151,370</u>	<u>91,090</u>	<u>60,280</u>	<u>170,453</u>	<u>51,989</u>	<u>118,464</u>
Liabilities						
Noncurrent liabilities						
outstanding	7,411,101	1,766,834	5,644,267	6,883,662	3,233,029	3,650,633
Other liabilities	478,081	393,084	84,997	48,683	81,076	(32,393)
Total Liabilities	<u>7,889,182</u>	<u>2,159,918</u>	<u>5,729,264</u>	<u>6,932,345</u>	<u>3,314,105</u>	<u>3,618,240</u>
Deferred Inflows of Resources	<u>328,257</u>	<u>197,928</u>	<u>130,329</u>	<u>194,218</u>	<u>26,339</u>	<u>167,879</u>
Net Position						
Net investment in capital assets	5,603,446	5,757,529	(154,083)	8,200,048	8,210,208	(10,160)
Restricted	1,020,817	1,144,463	(123,646)	-	-	-
Unrestricted	<u>4,433,752</u>	<u>2,994,809</u>	<u>1,438,943</u>	<u>4,716,016</u>	<u>3,838,941</u>	<u>877,075</u>
Total Net Position	<u>\$ 11,058,015</u>	<u>\$ 9,896,801</u>	<u>\$ 1,161,214</u>	<u>\$ 12,916,064</u>	<u>\$ 12,049,149</u>	<u>\$ 866,915</u>

An additional portion of the City's net position (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$9,149,768 may be used to meet the City's ongoing obligations to citizens and creditors.

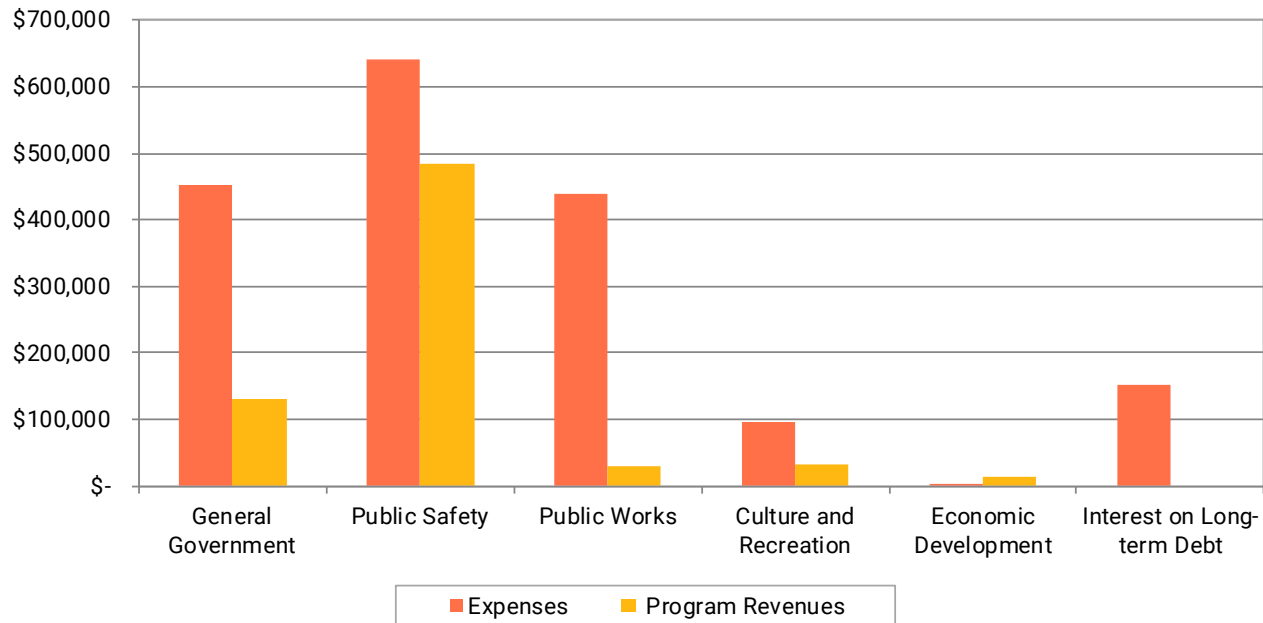
Governmental Activities. Governmental activities increased the City's net position by \$1,161,214 thereby accounting for 57.3 percent of the total growth in the net position of the City. Key elements of this increase are as follows:

City of Montrose's Changes in Net Position

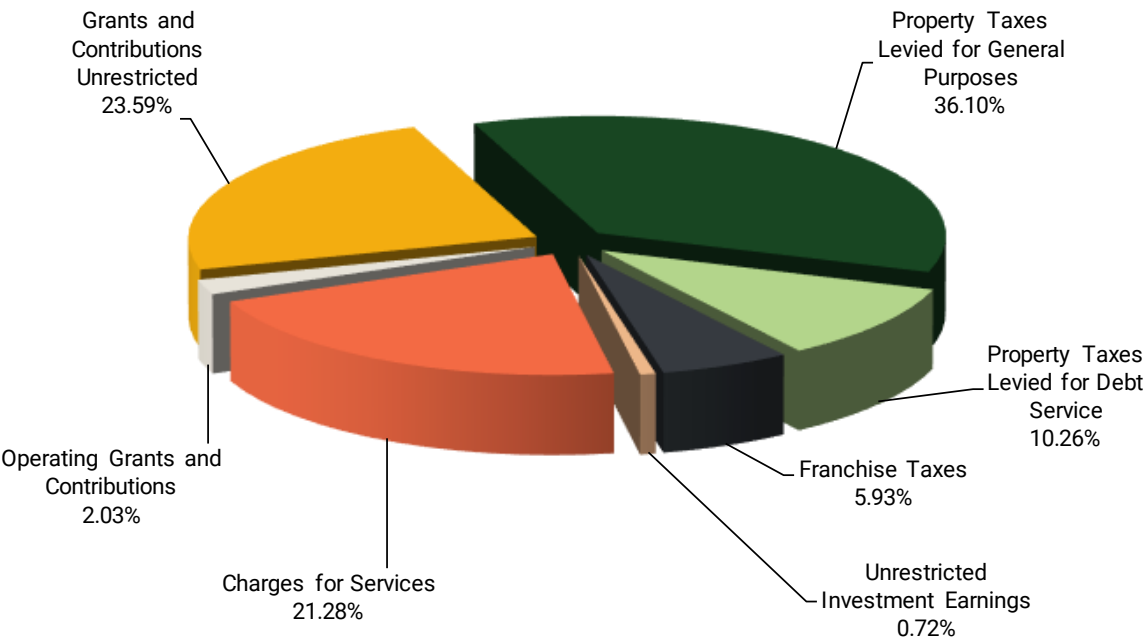
	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Revenues						
Program Revenues						
Charges for services	\$ 625,730	\$ 502,214	\$ 123,516	\$ 1,838,524	\$ 2,020,724	\$ (182,200)
Operating grants and contributions	59,840	219,425	(159,585)	4,038	7,355	(3,317)
Capital grants and contributions	2,666	26	2,640	398,514	248,154	150,360
General Revenues						
Property taxes	1,364,090	1,285,485	78,605	41,351	41,582	(231)
Franchise taxes	174,529	158,250	16,279	-	-	-
Grants and contributions not restricted to specific programs	694,154	627,645	66,509	-	-	-
Unrestricted investment earnings	21,318	34,556	(13,238)	16,855	28,535	(11,680)
Total Revenues	<u>2,942,327</u>	<u>2,827,601</u>	<u>114,726</u>	<u>2,299,282</u>	<u>2,346,350</u>	<u>(47,068)</u>
Expenses						
General government	451,857	422,790	29,067	-	-	-
Public safety	640,042	953,903	(313,861)	-	-	-
Public works	439,639	154,936	284,703	-	-	-
Culture and recreation	95,885	98,770	(2,885)	-	-	-
Economic development	1,645	1,568	77	-	-	-
Interest on long-term debt	152,045	44,521	107,524	-	-	-
Water	-	-	-	461,882	341,079	120,803
Sanitary sewer	-	-	-	339,333	303,672	35,661
Refuse	-	-	-	98,588	269,577	(170,989)
Storm water	-	-	-	82,558	56,275	26,283
Wastewater treatment	-	-	-	450,006	628,980	(178,974)
Total Expenses	<u>1,781,113</u>	<u>1,676,488</u>	<u>104,625</u>	<u>1,432,367</u>	<u>1,599,583</u>	<u>(167,216)</u>
Change in Net Position	1,161,214	1,151,113	10,101	866,915	746,767	120,148
Net Position, January 1	<u>9,896,801</u>	<u>8,745,688</u>	<u>1,151,113</u>	<u>12,049,149</u>	<u>11,302,382</u>	<u>746,767</u>
Net Position, December 31	<u>\$ 11,058,015</u>	<u>\$ 9,896,801</u>	<u>\$ 1,161,214</u>	<u>\$ 12,916,064</u>	<u>\$ 12,049,149</u>	<u>\$ 866,915</u>

The following graph depicts various governmental activities and shows the revenue and expenses directly related to those activities.

Expenses and Program Revenue - Governmental Activities



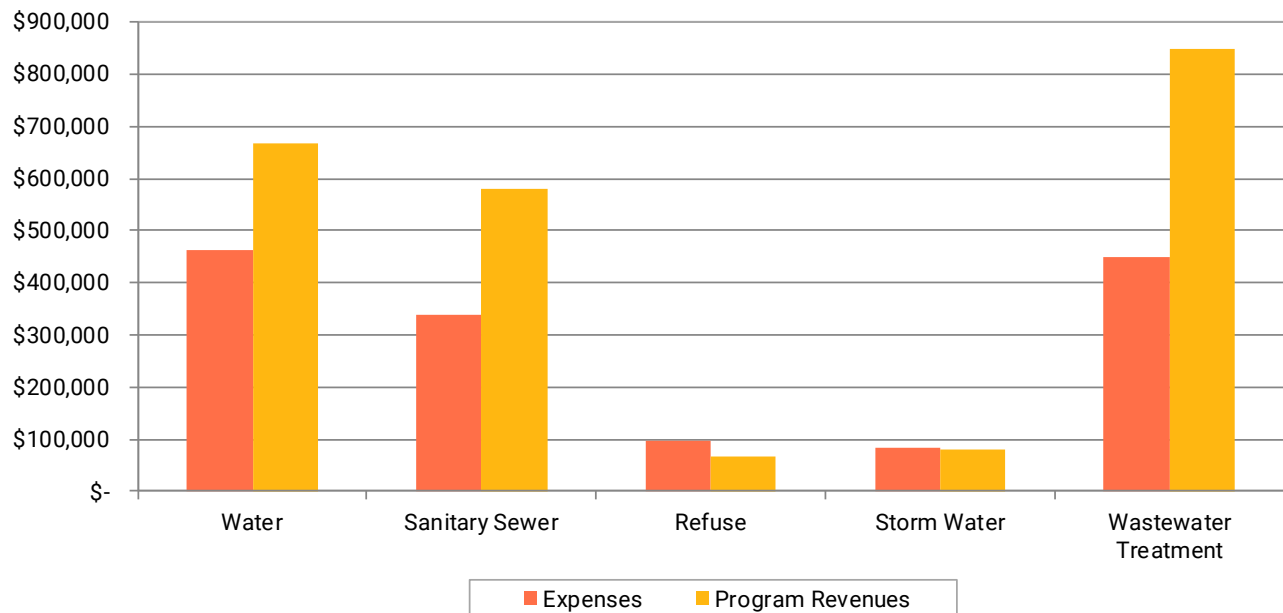
Revenue by Source - Governmental Activities



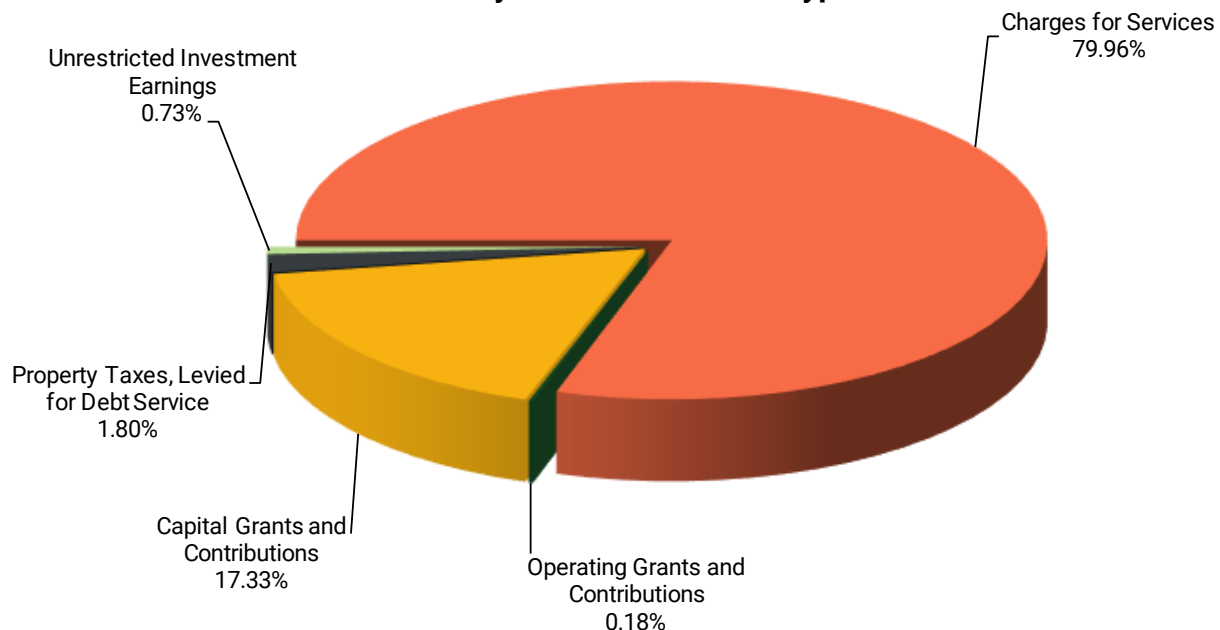
Business-type Activities. Business-type activities increased the City's net position by \$866,915, accounting for 42.7 percent of the growth in the City's net position. Key elements of this increase are as follows:

- Operating expenses for the business-type activities were \$1,291,968. The net revenue of the business-type activities was \$1,830,394. This points out that utility charges are sufficient to cover expenses incurred during operations of the utilities.

Expenses and Program Revenues - Business Type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government'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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Major Funds	Fund Balance December 31,		Increase (Decrease)
	2021	2020	
General	\$ 1,718,412	\$ 1,604,952	\$ 113,460
The increase in fund balance was largely due to license and permit revenue exceeding the budget and capital outlay expenditures under budget.			
Fire Special	\$ 1,211,186	\$ 1,080,758	\$ 130,428
The increase was largely a result of planned budgeted increase.			
Park and Recreation	\$ 567,967	\$ 409,597	\$ 158,370
The increase was largely a result of tax levy and intergovernmental revenue			
General Capital projects	\$ 949,751	\$ 404,984	\$ 544,767
The increase was largely a result of tax levy and intergovernmental revenue			
Downtown Development	\$ 5,308,406	\$ (131,630)	\$ 5,440,036
The increase was largely a result of bonds issued.			
Debt Service	\$ 585,419	\$ 738,537	\$ (153,118)
The Debt Service fund balance increased by \$63,115 due to revenues greater than expenditures. Revenues in the debt service funds increased by approximately \$30,900, while debt service expenditures decreased by \$43,800.			

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

Net position of the enterprise funds at the end of the year amounted to \$12,916,064. The total change in net position for the funds was an increase of \$866,915. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General and Fire Special Funds Budgetary Highlights

The City's General fund budget was not amended during the year. The final budget called for a \$0 decrease in fund balance. Revenues exceeded budget by \$214,992, primarily due to miscellaneous revenue being \$95,319 higher than expectations. Expenditures were under budget by \$128,569 during the year. Most of the General fund functions spent less than the budgeted amounts.

The City's Fire Special fund budget was not amended during the year. The final budget called for a \$105,660 increase in fund balance prior to the transfer out. Revenues were \$29,862 over budget and expenditures were over budget by \$2,594.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of December 31, 2021, amounts to \$18,753,385 (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

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

- Purchase of new John Deere lawn mowers and tractor
- Purchase of new playground for Forest Creek Park
- Purchase of an Audio-Visual system for the Community Center
- Completed the 2020 Street Project and TH 25 improvements
- Construction in process related to the 2021 Downtown Project

Additional information on the City's capital assets can be found in Note 3C starting on page 59 of this report.

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

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
Land	\$ 828,524	\$ 828,524	\$ -	\$ 400,954	\$ 400,954	\$ -
Construction in Progress	668,237	983,172	(314,935)	226,954	-	226,954
Buildings	83,854	92,217	(8,363)	-	-	-
Infrastructure	5,408,904	4,634,178	774,726	10,330,078	10,693,021	(362,943)
Machinery and Equipment	761,153	843,488	(82,335)	44,727	28,852	15,875
Total	<u>\$ 7,750,672</u>	<u>\$ 7,381,579</u>	<u>\$ 369,093</u>	<u>\$ 11,002,713</u>	<u>\$ 11,122,827</u>	<u>\$ (120,114)</u>

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$13,292,122. Of this amount, \$11,499,000 is general obligation debt and \$1,793,121 is general obligation revenue debt. 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 Montrose's Outstanding Debt

	Governmental Activities			Business-type Activities		
	2021	2020	Increase (Decrease)	2021	2020	Increase (Decrease)
General Obligation Improvement Bonds	\$ 6,854,000	\$ 1,470,000	\$ 5,384,000	\$ 4,645,000	\$ 710,000	\$ 3,935,000
General Obligation Revenue Bonds	-	-	-	1,793,122	2,202,619	(409,497)
Unamortized Premium on Bonds	305,475	2,247	303,228	212,588	-	212,588
Capital Lease Payable	129,513	151,803	(22,290)	-	-	-
Total	\$ 7,288,988	\$ 1,624,050	\$ 5,664,938	\$ 6,650,710	\$ 2,912,619	\$ 3,738,091

The City's total debt increased \$9,403,029 or 207.27 percent during the current fiscal year. The increase was a result of the issuance of the 2021A bond issuance.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The City has applicable debt; however, the total is under the statutory debt limit.

Additional information on the City's long-term debt can be found in Note 3E starting on page 62 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's General fund budget for 2022 continues to be a modest budget with budgeted revenues and expenditures of \$1,125,920, preserving the General fund balance. This is a \$98,612 increase over the 2021 original budget.

The total tax levy for all funds is \$1,491,245 for 2022 which is a \$100,000 increase over the prior year.

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 Wendy Manson, City Clerk/Treasurer, City of Montrose, 311 Buffalo Avenue South, Montrose, Minnesota 55363.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Montrose, Minnesota
Statement of Net Position
December 31, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and temporary investments	\$ 10,934,353	\$ 8,591,685	\$ 19,526,038
Receivables			
Interest	5,318	-	5,318
Delinquent taxes	30,936	-	30,936
Accounts	33,316	176,356	209,672
Special assessments	19,594	1,629	21,223
Notes	-	96,569	96,569
Prepaid items	-	3,222	3,222
Net pension asset	349,895	-	349,895
Capital assets			
Nondepreciable	1,496,761	627,908	2,124,669
Depreciable, net of accumulated depreciation	6,253,911	10,374,805	16,628,716
Total Assets	<u>19,124,084</u>	<u>19,872,174</u>	<u>38,996,258</u>
Deferred Outflows of Resources			
Pension resources	<u>151,370</u>	<u>170,453</u>	<u>321,823</u>
Liabilities			
Accounts payable	49,668	5,078	54,746
Escrows payable	134,618	-	134,618
Accrued salaries payable	66,734	10,347	77,081
Accrued interest payable	45,816	33,258	79,074
Unearned revenue	181,245	-	181,245
Noncurrent liabilities			
Due within one year			
Long-term liabilities	425,830	583,827	1,009,657
Due in more than one year			
Long-term liabilities	6,881,177	6,087,916	12,969,093
Net pension liability	104,094	211,919	316,013
Total Liabilities	<u>7,889,182</u>	<u>6,932,345</u>	<u>14,821,527</u>
Deferred Inflows of Resources			
Pension resources	<u>328,257</u>	<u>194,218</u>	<u>522,475</u>
Net Position			
Net investment in capital assets	5,603,446	8,200,048	13,803,494
Restricted for			
Debt service	539,603	-	539,603
Small cities grants	8,883	-	8,883
Economic development	472,331	-	472,331
Unrestricted	4,433,752	4,716,016	9,149,768
Total Net Position	<u>\$ 11,058,015</u>	<u>\$ 12,916,064</u>	<u>\$ 23,974,079</u>

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General government	\$ 451,857	\$ 130,084	\$ 262	\$ -
Public safety	640,042	471,509	11,930	-
Public works	439,639	-	26,603	2,666
Culture and recreation	95,885	11,218	21,045	-
Economic development	1,645	12,919	-	-
Interest on long term debt	152,045	-	-	-
Total Governmental Activities	<u>1,781,113</u>	<u>625,730</u>	<u>59,840</u>	<u>2,666</u>
Business-type Activities				
Water	461,882	559,064	152	108,000
Sanitary sewer	339,333	422,758	137	156,000
Refuse	98,588	65,004	3,541	-
Storm water	82,558	79,047	36	-
Wastewater treatment	450,006	712,651	172	134,514
Total Business-type Activities	<u>1,432,367</u>	<u>1,838,524</u>	<u>4,038</u>	<u>398,514</u>
Total	<u>\$ 3,213,480</u>	<u>\$ 2,464,254</u>	<u>\$ 63,878</u>	<u>\$ 401,180</u>

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

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 Revenues (Expenses)
and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (321,511)	\$ -	\$ (321,511)
(156,603)	-	(156,603)
(410,370)	-	(410,370)
(63,622)	-	(63,622)
11,274	-	11,274
(152,045)	-	(152,045)
<u>(1,092,877)</u>	<u>-</u>	<u>(1,092,877)</u>
-	205,334	205,334
-	239,562	239,562
-	(30,043)	(30,043)
-	(3,475)	(3,475)
-	397,331	397,331
-	<u>808,709</u>	<u>808,709</u>
<u>(1,092,877)</u>	<u>808,709</u>	<u>(284,168)</u>
1,062,130	-	1,062,130
301,960	41,351	343,311
174,529	-	174,529
694,154	-	694,154
21,318	16,855	38,173
<u>2,254,091</u>	<u>58,206</u>	<u>2,312,297</u>
1,161,214	866,915	2,028,129
<u>9,896,801</u>	<u>12,049,149</u>	<u>21,945,950</u>
<u>\$ 11,058,015</u>	<u>\$ 12,916,064</u>	<u>\$ 23,974,079</u>

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

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FUND FINANCIAL STATEMENTS

CITY OF MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Montrose, Minnesota

Balance Sheet
Governmental Funds
December 31, 2021

	101	220	230	401
	General	Fire Special	Park and Recreation	General Capital Projects
Assets				
Cash and temporary investments	\$ 2,020,493	\$ 1,259,229	\$ 569,029	\$ 949,751
Receivables				
Delinquent taxes	30,936	-	-	-
Interest	5,318	-	-	-
Accounts	33,212	-	104	-
Special assessments	-	19,594	-	-
	<u>-</u>	<u>19,594</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 2,089,959</u>	<u>\$ 1,278,823</u>	<u>\$ 569,133</u>	<u>\$ 949,751</u>
Liabilities				
Accounts payable	\$ 39,351	\$ 1,616	\$ 397	\$ -
Escrows payable	134,618	-	-	-
Accrued salaries payable	3,544	62,260	769	-
Unearned revenue	181,245	-	-	-
	<u>358,758</u>	<u>63,876</u>	<u>1,166</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	12,789	-	-	-
Unavailable revenue - special assessments	-	3,761	-	-
	<u>12,789</u>	<u>3,761</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted	-	-	-	-
Committed	-	598,833	-	-
Assigned	-	612,353	567,967	949,751
Unassigned	1,718,412	-	-	-
	<u>1,718,412</u>	<u>1,211,186</u>	<u>567,967</u>	<u>949,751</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,089,959</u>	<u>\$ 1,278,823</u>	<u>\$ 569,133</u>	<u>\$ 949,751</u>

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

507 Downtown Improvement	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 5,316,212	\$ 585,419	\$ 234,220	\$ 10,934,353
-	-	-	30,936
-	-	-	5,318
-	-	-	33,316
-	-	-	19,594
<u>\$ 5,316,212</u>	<u>\$ 585,419</u>	<u>\$ 234,220</u>	<u>\$ 11,023,517</u>
\$ 7,806	\$ -	\$ 498	\$ 49,668
-	-	-	134,618
-	-	161	66,734
-	-	-	181,245
<u>7,806</u>	<u>-</u>	<u>659</u>	<u>432,265</u>
-	-	-	12,789
-	-	-	3,761
-	-	-	16,550
5,141,762	585,419	481,214	6,208,395
-	-	87,834	686,667
166,644	-	-	2,296,715
-	-	(335,487)	1,382,925
<u>5,308,406</u>	<u>585,419</u>	<u>233,561</u>	<u>10,574,702</u>
<u>\$ 5,316,212</u>	<u>\$ 585,419</u>	<u>\$ 234,220</u>	<u>\$ 11,023,517</u>

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

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

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

Total Fund Balances - Governmental	\$ 10,574,702
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	12,315,286
Less: accumulated depreciation	(4,564,614)
Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Noncurrent liabilities at year-end consist of	
Bonds payable	(6,854,000)
Unamortized bond premium	(305,475)
Capital lease payable	(129,513)
Compensated absences payable	(18,019)
Net pension liability	(104,094)
Some receivables are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent taxes receivable	12,789
Special assessments receivable	3,761
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	151,370
Deferred inflows of pension resources	(328,257)
Net pension asset	349,895
Governmental funds do not report a liability for accrued interest until due and payable.	<u>(45,816)</u>
Total Net Position - Governmental Activities	<u><u>\$ 11,058,015</u></u>

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

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

	101	220	230	401
	General	Fire Special	Park and Recreation	General Capital Projects
Revenues				
Taxes	\$ 742,028	\$ -	\$ 156,175	\$ 253,939
Licenses and permits	135,125	-	-	-
Intergovernmental	222,354	11,930	150,000	337,672
Charges for services	37,578	91,550	50	-
Special assessments	-	226,872	-	-
Interest on investments	4,396	3,214	1,329	1,837
Miscellaneous	92,319	15,196	23,757	-
Total Revenues	<u>1,233,800</u>	<u>348,762</u>	<u>331,311</u>	<u>593,448</u>
Expenditures				
Current				
General government	385,019	-	-	-
Public safety	371,559	199,074	-	-
Public works	135,403	-	-	-
Culture and recreation	-	-	93,568	-
Economic development	-	-	-	-
Capital outlay				
General government	1,299	-	-	48,681
Public safety	769	16,760	-	-
Public works	4,690	-	-	-
Culture and recreation	-	-	79,373	-
Debt service				
Principal	-	-	-	-
Interest and service charges	-	-	-	-
Total Expenditures	<u>898,739</u>	<u>215,834</u>	<u>172,941</u>	<u>48,681</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>335,061</u>	<u>132,928</u>	<u>158,370</u>	<u>544,767</u>
Other Financing Sources (Uses)				
Transfers in	8,500	-	-	-
Bonds issued	-	-	-	-
Bond premium	-	-	-	-
Transfers out	(230,101)	(2,500)	-	-
Total Other Financing Sources (Uses)	<u>(221,601)</u>	<u>(2,500)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	113,460	130,428	158,370	544,767
Fund Balances, January 1	<u>1,604,952</u>	<u>1,080,758</u>	<u>409,597</u>	<u>404,984</u>
Fund Balances, December 31	<u><u>\$ 1,718,412</u></u>	<u><u>\$ 1,211,186</u></u>	<u><u>\$ 567,967</u></u>	<u><u>\$ 949,751</u></u>

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

507 Downtown Improvement	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 301,960	\$ 80,211	\$ 1,534,313
-	-	-	135,125
-	-	-	721,956
-	-	35,059	164,237
-	-	-	226,872
7,120	1,797	1,625	21,318
-	-	-	131,272
<u>7,120</u>	<u>303,757</u>	<u>116,895</u>	<u>2,935,093</u>
-	-	-	385,019
-	-	-	570,633
-	-	-	135,403
-	-	29,501	123,069
-	-	1,645	1,645
-	-	-	49,980
-	-	-	17,529
572,988	-	111,811	689,489
-	-	4,603	83,976
-	426,000	-	426,000
106,065	33,258	-	139,323
<u>679,053</u>	<u>459,258</u>	<u>147,560</u>	<u>2,622,066</u>
<u>(671,933)</u>	<u>(155,501)</u>	<u>(30,665)</u>	<u>313,027</u>
-	2,383	230,101	240,984
5,810,000	-	-	5,810,000
304,352	-	-	304,352
(2,383)	-	(6,000)	(240,984)
<u>6,111,969</u>	<u>2,383</u>	<u>224,101</u>	<u>6,114,352</u>
5,440,036	(153,118)	193,436	6,427,379
<u>(131,630)</u>	<u>738,537</u>	<u>40,125</u>	<u>4,147,323</u>
<u>\$ 5,308,406</u>	<u>\$ 585,419</u>	<u>\$ 233,561</u>	<u>\$ 10,574,702</u>

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

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

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

Total Net Change in Fund Balances - Governmental Funds	\$ 6,427,379
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	808,374
Depreciation expense	(416,991)
Governmental funds report a gain (loss) on sale of capital assets to the extent of cash exchanged, whereas the disposition of the assets book value is included in the total gain (loss) in the statement of activities.	
Disposals	(14,337)
Depreciation on disposals	14,337
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 premiums, discounts and similar items when debt is first issued, whereas the recognition of these amounts is amortized in the statement of activities. The below are the effects of these differences in the treatment of long term debt and related items.	
Principal repayments	426,000
Bonds issued	(5,810,000)
Premium on bonds issued	(304,352)
Amortization of bond premium	1,124
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.	(13,846)
Long-term pension activity is not reported in governmental funds.	
Pension expense	40,292
Pension revenue from state contributions	262
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	2,666
Property taxes	4,306
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	(4,000)
Change in Net Position - Governmental Activities	<u><u>\$ 1,161,214</u></u>

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

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 721,180	\$ 721,180	\$ 742,028	\$ 20,848
Licenses and permits	45,600	45,600	135,125	89,525
Intergovernmental	217,128	217,128	222,354	5,226
Charges for services	27,900	27,900	37,578	9,678
Interest on investments	7,000	7,000	4,396	(2,604)
Miscellaneous	-	-	92,319	92,319
Total Revenues	<u>1,018,808</u>	<u>1,018,808</u>	<u>1,233,800</u>	<u>214,992</u>
Expenditures				
Current				
General government	388,780	388,780	385,019	3,761
Public safety	353,128	353,128	371,559	(18,431)
Public works	172,900	172,900	135,403	37,497
Capital outlay				
General government	11,000	11,000	1,299	9,701
Public safety	5,000	5,000	769	4,231
Public works	96,500	96,500	4,690	91,810
Total Expenditures	<u>1,027,308</u>	<u>1,027,308</u>	<u>898,739</u>	<u>128,569</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(8,500)</u>	<u>(8,500)</u>	<u>335,061</u>	<u>343,561</u>
Other Financing Sources				
Transfers in	8,500	8,500	8,500	-
Transfers out	-	-	(230,101)	(230,101)
Total Other Financing Uses	<u>8,500</u>	<u>8,500</u>	<u>(221,601)</u>	<u>(230,101)</u>
Net Change in Fund Balances	-	-	113,460	113,460
Fund Balances, January 1	<u>1,604,952</u>	<u>1,604,952</u>	<u>1,604,952</u>	-
Fund Balances, December 31	<u><u>\$ 1,604,952</u></u>	<u><u>\$ 1,604,952</u></u>	<u><u>\$ 1,718,412</u></u>	<u><u>\$ 113,460</u></u>

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

City of Montrose, Minnesota
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Fire Special Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ -	\$ -	\$ 11,930	\$ 11,930
Charges for services	91,800	91,800	91,550	(250)
Special assessments	227,100	227,100	226,872	(228)
Interest (loss) on investments	-	-	3,214	3,214
Miscellaneous	-	-	15,196	15,196
Total Revenues	<u>318,900</u>	<u>318,900</u>	<u>348,762</u>	<u>29,862</u>
Expenditures				
Current				
Public safety				
Personal services	107,890	107,890	105,005	2,885
Supplies	37,500	37,500	46,185	(8,685)
Other services and charges	57,850	57,850	47,884	9,966
Capital outlay				
Public safety	10,000	10,000	16,760	(6,760)
Total Expenditures	<u>213,240</u>	<u>213,240</u>	<u>215,834</u>	<u>(2,594)</u>
Excess of Revenues Over Expenditures	105,660	105,660	132,928	27,268
Other Financing Uses				
Transfers out	<u>(2,500)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>-</u>
Net Change in Fund Balances	103,160	103,160	130,428	27,268
Fund Balances, January 1	<u>1,080,758</u>	<u>1,080,758</u>	<u>1,080,758</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,183,918</u>	<u>\$ 1,183,918</u>	<u>\$ 1,211,186</u>	<u>\$ 27,268</u>

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

City of Montrose, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2021

	Business-type Activities - Enterprise Funds				
	601	602	605	Nonmajor Other Proprietary Funds	Totals
	Water	Sanitary Sewer	Wastewater Treatment		
Assets					
Current Assets					
Cash and temporary investments	\$ 3,226,781	\$ 2,491,700	\$ 1,347,595	\$ 1,525,609	\$ 8,591,685
Receivables				-	
Accounts	41,597	36,635	90,803	7,321	176,356
Special assessments	1,629	-	-	-	1,629
Notes - current portion	-	-	38,330	-	38,330
Prepaid items	3,222	-	-	-	3,222
Total Current Assets	3,273,229	2,528,335	1,476,728	1,532,930	8,811,222
Noncurrent Assets					
Notes receivable, net of current portion	-	-	58,239	-	58,239
Capital Assets					
Land	105,131	-	295,823	-	400,954
Building and structures	3,580,669	6,111,722	5,832,386	794,611	16,319,388
Machinery and equipment	14,385	27,025	74,255	-	115,665
Construction in process	110,172	61,696	-	55,086	226,954
Less: accumulated depreciation	(1,002,214)	(2,675,184)	(2,095,785)	(287,065)	(6,060,248)
Net Capital Assets	2,808,143	3,525,259	4,106,679	562,632	11,002,713
Total Noncurrent Assets	2,808,143	3,525,259	4,164,918	562,632	11,060,952
Total Assets	6,081,372	6,053,594	5,641,646	2,095,562	19,872,174
Deferred Outflows of Resources					
Deferred pension resources	50,220	44,138	55,886	20,209	170,453
Liabilities					
Current Liabilities					
Accounts payable	1,282	198	3,598	-	5,078
Accrued salaries payable	3,220	2,842	3,411	874	10,347
Accrued interest payable	19,610	5,327	3,544	4,777	33,258
Compensated absences - current	4,418	4,093	7,262	1,054	16,827
Bonds payable - current	179,000	-	388,000	-	567,000
Total Current Liabilities	207,530	12,460	405,815	6,705	632,510
Noncurrent Liabilities					
Compensated absences	1,105	1,023	1,815	263	4,206
Net pension liability	62,437	54,874	69,482	25,126	211,919
Bonds payable	3,869,563	1,167,493	-	1,046,654	6,083,710
Total Noncurrent Liabilities	3,933,105	1,223,390	71,297	1,072,043	6,299,835
Total Liabilities	4,140,635	1,235,850	477,112	1,078,748	6,932,345
Deferred Inflows of Resources					
Deferred pension resources	57,222	50,291	63,678	23,027	194,218
Net Position					
Net investment in capital assets	619,408	3,406,069	3,718,679	455,892	8,200,048
Unrestricted	1,314,327	1,405,522	1,438,063	558,104	4,716,016
Total Net Position	\$ 1,933,735	\$ 4,811,591	\$ 5,156,742	\$ 1,013,996	\$ 12,916,064

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

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

	Business-type Activities - Enterprise Funds				
	601	602	605	Nonmajor Other Proprietary Funds	Totals
	Water	Sanitary Sewer	Wastewater Treatment		
Operating Revenues					
Charges for services	\$ 558,694	\$ 417,758	\$ 712,651	\$ 141,291	\$ 1,830,394
Operating Expenses					
Personal services	163,589	147,196	176,032	65,801	552,618
Supplies	33,340	3,454	40,340	1,308	78,442
Professional services	41,736	8,223	56,763	67,747	174,469
Repairs and maintenance	26,218	7,184	35,494	3,923	72,819
Utilities	24,752	6,527	(15,280)	1,294	17,293
Other services and charges	10,357	222	15,760	-	26,339
Depreciation	88,929	140,090	123,342	17,627	369,988
Total Operating Expenses	388,921	312,896	432,451	157,700	1,291,968
Operating Income (Loss)	169,773	104,862	280,200	(16,409)	538,426
Nonoperating Revenues (Expenses)					
Property taxes	41,351	-	-	-	41,351
Intergovernmental	-	-	-	3,515	3,515
Interest on investments	5,874	4,763	3,430	2,788	16,855
Other income	522	5,137	172	2,822	8,653
Interest and service charges	(72,961)	(26,437)	(17,555)	(23,446)	(140,399)
Total Nonoperating Revenues (Expenses)	(25,214)	(16,537)	(13,953)	(14,321)	(70,025)
Income (Loss) Before Contributions and Transfers	144,559	88,325	266,247	(30,730)	468,401
Capital Contribution - Connection Fees	108,000	156,000	134,514	-	398,514
Transfers In	-	-	18,605	-	18,605
Transfers Out	-	(18,605)	-	-	(18,605)
Change in Net Position	252,559	225,720	419,366	(30,730)	866,915
Net Position, January 1	1,681,176	4,585,871	4,737,376	1,044,726	12,049,149
Net Position, December 31	\$ 1,933,735	\$ 4,811,591	\$ 5,156,742	\$ 1,013,996	\$ 12,916,064

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

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

	Business-type Activities - Enterprise Funds				
	601	602	605	Nonmajor Other Proprietary Funds	Totals
	Water	Sanitary Sewer	Wastewater Treatment		
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 560,765	\$ 425,469	\$ 710,425	\$ 167,673	\$ 1,864,332
Payments to suppliers	(141,017)	(26,430)	(137,076)	(76,011)	(380,534)
Payments to employees	(172,025)	(154,968)	(186,400)	(75,794)	(589,187)
Net Cash Provided (Used) by Operating Activities	247,723	244,071	386,949	15,868	894,611
Cash Flows from Noncapital Financing Activities					
Transfers in	-	-	18,605	-	18,605
Grants received	-	-	-	3,515	3,515
Transfers out	-	(18,605)	-	-	(18,605)
Net Cash Provided (Used) by Noncapital Financing Activities	-	(18,605)	18,605	3,515	3,515
Cash Flows from Capital and Related Financing Activities					
Connection fees received	108,000	156,000	134,514	-	398,514
Property taxes received	41,351	-	-	-	41,351
Acquisition of capital assets	(154,335)	(61,696)	(15,280)	(55,086)	(286,397)
Principal paid on bonds	(228,000)	-	(379,000)	-	(607,000)
Interest paid on bonds	(27,788)	-	(21,016)	-	(48,804)
Bond proceeds	2,093,697	1,146,383	-	1,027,985	4,268,065
Receipts on notes receivable	-	-	38,116	-	38,116
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	1,832,925	1,240,687	(242,666)	972,899	3,803,845
Cash Flows from Investing Activities					
Interest received on investments	5,874	4,763	3,430	2,788	16,855
Net Increase (Decrease) in Cash and Cash Equivalents	2,086,522	1,470,916	166,318	995,070	4,718,826
Cash and Cash Equivalents, January 1	1,140,259	1,020,784	1,181,277	530,539	3,872,859
Cash and Cash Equivalents, December 31	<u>\$ 3,226,781</u>	<u>\$ 2,491,700</u>	<u>\$ 1,347,595</u>	<u>\$ 1,525,609</u>	<u>\$ 8,591,685</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 169,773	\$ 104,862	\$ 280,200	\$ (16,409)	\$ 538,426
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Other income related to operations	522	5,137	172	2,822	8,653
Depreciation	88,929	140,090	123,342	17,627	369,988
(Increase) decrease in assets/deferred outflows					
Accounts receivable	(351)	2,574	(2,398)	23,560	23,385
Special assessments receivable	1,900	-	-	-	1,900
Prepaid items	741	-	-	-	741
Deferred pension resources	(35,208)	(30,893)	(39,004)	(13,359)	(118,464)
Increase (decrease) in liabilities/deferred inflows					
Accounts payable	(5,355)	(820)	(3,999)	(1,739)	(11,913)
Salaries and compensated absences payable	451	307	442	(2,191)	(991)
Deferred pension resources	49,617	43,581	55,125	19,556	167,879
Net pension liability	(23,296)	(20,767)	(26,931)	(13,999)	(84,993)
Net Cash Provided (Used) by Operating Activities	<u>\$ 247,723</u>	<u>\$ 244,071</u>	<u>\$ 386,949</u>	<u>\$ 15,868</u>	<u>\$ 894,611</u>

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

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Montrose, Minnesota (the City), operates under the "Optional Plan A" form of government as defined in the State of Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council members. The City Council exercises legislative authority and determines all matters of policy. The City 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 City 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. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the City. The City has the following component unit:

Blended Component Unit. The Economic Development Authority (EDA) of the City was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment consistent with policies established by the City Council. It is comprised of the members of the City Council plus two members at-large for a seven member commission and has a December 31 year end. As a result of the EDA board being substantively the same as the City Council, the City's financial benefit or burden relationship, and the City having operational responsibility; the EDA activities are blended and reported as a Special Revenue fund. Separate financial statements are not issued for this component unit.

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 and its component units. *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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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 *Fire Special fund* accounts for special assessments that are committed for the current operation of the fire department and future equipment purchases. Charges for services also make up a significant portion on inflows are assigned for fire department operations.

The *Park and Recreation fund* accounts for current operation of the parks and future capital purchases.

The *General Capital Projects fund* accounts for the project costs and equipment costs.

The *Downtown Improvement fund* accounts for the project costs and related bond proceeds.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

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

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

The *Wastewater Treatment Plant fund* accounts for costs associated with wastewater treatment plant, which provides service to the City, the City of Waverly and the 12-High Estates development. The fund also ensures that user charges are sufficient to pay for the costs associated with the plant.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise 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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

Earnings on investments are allocated to the individual funds based upon the average cash and investment balances.

Property Taxes

The City 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 fund statements.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2021. The City annually certifies delinquent utility accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

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 deferred inflow of resources in the fund financial statements.

Notes Receivable

The City has loaned out revolving loan funds in a nonmajor governmental fund and has issued long-term notes receivable for capital costs in the Wastewater Treatment fund. The note receivable in the nonmajor governmental fund are included in restricted fund balance.

Interfund Receivables and Payables

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

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and 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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

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

Assets	Useful Lives in Years
Equipment and Vehicles	5 to 10
Buildings	40
Furniture and Other Equipment	3 to 20
Infrastructure	40 to 50

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.

Compensated Absences

It is the City's policy to permit employees to accumulate a portion of earned but unused vacation and sick pay benefits. Accumulated vacation and sick pay are accrued when incurred in the government-wide and proprietary 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 General fund is typically used to liquidate governmental compensated absences.

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. Recognition of bond premiums and discounts are 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.

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.

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

Note 1: Summary of Significant Accounting Policies (Continued)

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit plan administered by Montrose Firefighters Relief Association and additions to and deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net position liability.

The total pension expense for the GERP and Montrose Fire Relief are as follows:

	Public Employees Retirement Association of Minnesota (PERA) GERP	Fire Relief Association	Total All Plans
Pension Expense	\$ 5,228	\$ 96,608	\$ 101,836

Deferred Inflows of Resources

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

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

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, which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City 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 City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator/Clerk/Treasurer.

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

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 of budgeted operating expenditures for cash-flow timing needs.

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 - Consist 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 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 and the Fire Special 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 City Administrator so that a budget may be prepared. Before September 30th, the proposed budget is presented to the City Council for review. In early December, the City Council holds public hearings and a final budget is prepared and adopted.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level.

During 2021, the City made no amendments to their General and Fire funds budgets.

B. Deficit Fund Equity

The following funds had fund equity deficits at December 31, 2021:

Fund	Amount
Nonmajor	
A.U.A.R.	\$ 266,671
2020 Street Improvement	68,816

The deficits in these funds will be eliminated by transfers from other funds and future tax collections.

Note 2: Stewardship, Compliance and Accountability (Continued)

C. Excess of Expenditures Over Appropriations

For the year ended December 31, 2021, expenditures exceeded appropriations in the Fire Special Fund by \$2,594. These excess expenditures were funded by greater than anticipated revenues.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

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 City 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, bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

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

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

At year end, the City's carrying amount of deposits was \$19,366,159 and the bank balance was \$19,457,591. Of the bank balance, \$10,700,000 was covered by federal depository insurance. The remaining amount was covered by collateral held by the City's agent in the City's name.

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

Note 3: Detailed Notes on All Funds (Continued)

Investments

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

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Cost			
Money Market Mutual funds	N/A	less than 6 months	<u>\$ 159,679</u>
 Total Investments			 <u><u>\$ 159,679</u></u>

(1) Ratings were provided by various credit rating agencies.

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

N/A Indicates not applicable or available.

The investments of the City are subject to the following risks:

- *Credit Risk.* 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 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 does not have an investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* The concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City has no formal policy limiting the amounts that may be invested in any one issuer.
- *Interest Rate Risk.* The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no formal policy to address interest rate risk.

The City currently does not have an investment policy that addresses credit, custodial credit, concentration of credit, and interest rate risks.

Cash and Investments Summary

A reconciliation of cash and investments as reported on the statement of net position follows:

Carrying Amount of Deposits	\$ 19,366,159
Investments	159,679
Cash on Hand	<u>200</u>
 Total	 <u><u>\$ 19,526,038</u></u>
 Government-wide	
Cash and temporary investments	<u><u>\$ 19,526,038</u></u>

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

Note 3: Detailed Notes on All Funds (Continued)

B. Notes Receivable

Long-term notes receivable were issued in June of 2004 for Waverly and 12-High Estates capital costs. The original total principal balance was \$621,006 and is being repaid monthly, over twenty years at 3.1 percent interest. At December 31, 2021, \$96,569 of notes receivable are outstanding in the Wastewater Treatment fund.

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets not Being Depreciated				
Land and land improvements	\$ 828,524	\$ -	\$ -	\$ 828,524
Construction in progress	983,172	644,194	(959,129)	668,237
Total Capital Assets not Being Depreciated	<u>1,811,696</u>	<u>644,194</u>	<u>(959,129)</u>	<u>1,496,761</u>
Capital Assets Being Depreciated				
Buildings	526,390	-	-	526,390
Infrastructure	6,858,463	1,011,583	-	7,870,046
Machinery and equipment	2,346,990	89,436	(14,337)	2,422,089
Total Capital Assets Being Depreciated	<u>9,731,843</u>	<u>1,101,019</u>	<u>(14,337)</u>	<u>10,818,525</u>
Less Accumulated Depreciation for				
Buildings	(434,173)	(8,363)	-	(442,536)
Infrastructure	(2,224,285)	(236,857)	-	(2,461,142)
Machinery and equipment	(1,503,502)	(171,771)	14,337	(1,660,936)
Total Accumulated Depreciation	<u>(4,161,960)</u>	<u>(416,991)</u>	<u>14,337</u>	<u>(4,564,614)</u>
Total Capital Assets Being Depreciated, Net	<u>5,569,883</u>	<u>684,028</u>	<u>-</u>	<u>6,253,911</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,381,579</u>	<u>\$ 1,328,222</u>	<u>\$ (959,129)</u>	<u>\$ 7,750,672</u>

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

Note 3: Detailed Notes on All Funds (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets not Being Depreciated				
Land and land improvements	\$ 400,954	\$ -	\$ -	\$ 400,954
Construction in progress	-	226,954	-	226,954
Total Capital Assets not Being Depreciated	400,954	226,954	-	627,908
Capital Assets Being Depreciated				
Infrastructure	16,319,388	-	-	16,319,388
Machinery and equipment	92,745	22,920	-	115,665
Total Capital Assets Being Depreciated	16,412,133	22,920	-	16,435,053
Less Accumulated Depreciation for				
Infrastructure	(5,626,367)	(362,943)	-	(5,989,310)
Machinery and equipment	(63,893)	(7,045)	-	(70,938)
Total Accumulated Depreciation	(5,690,260)	(369,988)	-	(6,060,248)
Total Capital Assets Being Depreciated, Net	10,721,873	(347,068)	-	10,374,805
Business-type Activities Capital Assets, Net	<u>\$ 11,122,827</u>	<u>\$ (120,114)</u>	<u>\$ -</u>	<u>\$ 11,002,713</u>

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

Governmental Activities	
General government	\$ 27,205
Public safety	90,560
Public works	281,406
Culture and recreation	17,820
Total Depreciation Expense - Governmental Activities	<u>\$ 416,991</u>
Business-type Activities	
Water	\$ 88,929
Sanitary sewer	140,090
Storm water	17,627
Wastewater treatment	123,342
Total Depreciation Expense - Business-type Activities	<u>\$ 369,988</u>

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

Note 3: Detailed Notes on All Funds (Continued)

Construction Commitments

The City has active construction projects as of December 31, 2021. The projects include various street and road improvements and public facilities projects. At year end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
TH 25 Improvements	\$ 25,600	\$ 5,159,407

D. Interfund Transfers

The following interfund transfers were made during 2021:

Fund	General	Debt Service	Transfer in Other Governmental Funds	Wastewater Treatment	Total
Transfer Out					
General	\$ -	\$ -	\$ 230,101	\$ -	\$ 230,101
Fire Special	2,500	-	-	-	2,500
Downtown Improvements	-	2,383	-	-	2,383
Other Governmental Funds	6,000	-	-	-	6,000
Sanitary Sewer	-	-	-	18,605	18,605
Total	<u>\$ 8,500</u>	<u>\$ 2,383</u>	<u>\$ 230,101</u>	<u>\$ 18,605</u>	<u>\$ 259,589</u>

The City annually budgets for transfers between funds. These annual budgeted transfers are made for certain funds portion of debt service payments, to cover administrative fees and to fund certain capital improvement projects.

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

Note 3: Detailed Notes on All Funds (Continued)

E. Long-term Debt

General Obligation Bonds

The City issues G.O. bonds to provide funds for the acquisition and construction of major capital facilities. G.O. bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund special assessments related bonds.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. G.O. bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Governmental Activities					
G.O. Refunding Bonds, Series 2012B	\$ 1,035,000	1.00 - 2.20 %	12/01/12	02/01/27	\$ 585,000
G.O. Street Reconstruction Series 2017A	366,000	2.50	10/10/17	02/01/25	219,000
G.O. Bonds, Series 2021A	5,810,000	2.00 - 4.00	09/14/21	02/01/42	<u>5,810,000</u>
					<u>\$ 6,614,000</u>
Business-type Activities					
G.O. Crossover Refunding Series 2012B	\$ 1,005,000	1.00 - 2.20 %	12/01/12	02/01/27	\$ 570,000
G.O. Bonds, Series 2021A	4,075,000	2.00 - 4.00	09/14/21	02/01/42	<u>4,075,000</u>
Total					<u>\$ 4,645,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 148,000	\$ 127,526	\$ 275,526	\$ 90,000	\$ 89,012	\$ 179,012
2023	334,000	137,775	471,775	220,000	96,700	316,700
2024	390,000	130,263	520,263	260,000	91,900	351,900
2025	402,000	122,063	524,063	260,000	86,700	346,700
2026	350,000	114,350	464,350	280,000	81,250	361,250
2027 - 2031	1,440,000	457,100	1,897,100	1,040,000	321,050	1,361,050
2032 - 2037	1,520,000	280,200	1,800,200	1,065,000	197,150	1,262,150
2038 - 2027	1,675,000	120,650	1,795,650	1,180,000	85,000	1,265,000
2042	355,000	3,550	358,550	250,000	2,500	252,500
Total	<u>\$ 6,614,000</u>	<u>\$ 1,493,477</u>	<u>\$ 8,107,477</u>	<u>\$ 4,645,000</u>	<u>\$ 1,051,262</u>	<u>\$ 5,696,262</u>

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

Note 3: Detailed Notes on All Funds (Continued)

G.O. Improvement (Special Assessment) Bonds

The City issues G.O. improvement bonds 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.

G.O improvement bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Governmental Activities					
G.O. Refunding Bonds, Series 2010A	\$ 1,475,000	2.00 - 3.05 %	09/15/10	02/01/22	<u>\$ 240,000</u>

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2022	<u>\$ 240,000</u>	<u>\$ 3,660</u>	<u>\$ 243,660</u>

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

Note 3: Detailed Notes on All Funds (Continued)

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be repaid from future revenues pledged from enterprise funds and are backed by the taxing power of the City. 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	Sanitary Sewer	Wastewater Treatment	Storm Water
Revenues	\$ 558,694	\$ 417,758	\$ 712,651	\$ 79,047
Principal and Interest	255,788	-	400,016	-
Percentage of Revenues	46%	0%	56%	0%

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Business-type Activities					
Minnesota Public Facility					
G.O. Sewer Revenue					
Note, Series 2002	\$ 4,209,000	2.74 %	10/17/02	08/20/22	\$ 284,000
Minnesota Public Facility					
G.O. Sewer Revenue					
Note, Series 2003	1,566,000	2.74	03/03/03	08/20/22	104,000
Minnesota Public Facility					
Revenue Bond					
Series 2019A	419,371	1.00	10/23/19	08/20/39	1,218,121
Minnesota Public Facility					
G.O. Water Revenue					
Bond, Series 2010	415,044	1.62	01/11/10	08/20/29	187,000
Total					<u>\$ 1,793,121</u>

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

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
2022	\$ 477,000	\$ 25,120	\$ 502,120
2023	89,000	15,108	104,108
2024	91,000	14,082	105,082
2025	92,000	13,030	105,030
2026 - 2030	452,001	48,895	500,896
2031 - 2035	373,000	26,845	399,845
2036 - 2039	219,120	5,464	224,584
Total	<u>\$ 1,793,121</u>	<u>\$ 148,544</u>	<u>\$ 1,941,665</u>

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

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. bonds	\$ 945,000	\$ 5,810,000	\$ (141,000)	\$ 6,614,000	\$ 148,000
G.O. improvement bonds	525,000	-	(285,000)	240,000	240,000
Unamortized premium on bonds	2,247	304,352	(1,124)	305,475	-
Total Bonds Payable	1,472,247	6,114,352	(427,124)	7,159,475	388,000
Capital lease payable	151,803	-	(22,290)	129,513	23,415
Compensated Absences Payable	14,019	16,165	(12,165)	18,019	14,415
 Governmental Activity Long-term Liabilities	 \$ 1,638,069	 \$ 6,130,517	 \$ (461,579)	 \$ 7,307,007	 \$ 425,830
Business-type Activities					
Bonds Payable					
G.O. bonds	\$ 710,000	\$ 4,075,000	\$ (140,000)	\$ 4,645,000	\$ 90,000
G.O. revenue bonds	2,202,619	57,503	(467,000)	1,793,122	477,000
Unamortized premium on bonds	-	212,588	-	212,588	-
Total Bonds Payable	2,912,619	4,345,091	(607,000)	6,650,710	567,000
Compensated Absences Payable	23,498	34,895	(37,360)	21,033	16,827
 Business-type Activity Long-term Liabilities	 \$ 2,936,117	 \$ 4,379,986	 \$ (644,360)	 \$ 6,671,743	 \$ 583,827

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

Note 3: Detailed Notes on All Funds (Continued)

F. Capital Leases

On January 1, 2019, the City entered into a capital lease agreement with Mercedes-Benz Financial Services USA, LLC for the period of January 2020 through January 2026. The leased equipment consists of a 2019 Western Star 4700 snow plow. The yearly principal portion for the lease amounts to \$29,565. The City made one payment for the year and recorded depreciation expense of \$29,003 with an ending net book value of \$122,800 as of December 31, 2021. The City's lease payments for 2021 - 2026 are expected to be \$29,956 each year as outlined in the lease agreement and below.

Year Ending December 31,	Governmental Activities
2022	\$ 29,956
2023	29,956
2024	29,956
2025	29,956
2026	29,956
Total Minimum Lease Payments	149,780
Less: Amount Representing Interest	<u>(20,267)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 129,513</u></u>

G. Components of Fund Balance

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

Fund	Purpose	Amount
Restricted		
Debt Service	Debt service payments	\$ 585,419
Nonmajor Governmental	Small cities grants	8,883
Downtown Improvements	Unspent bond proceeds	5,141,762
Nonmajor Governmental	Economic development	472,331
Downtown Improvements	Unspent bond proceeds	
Total Restricted Fund Balance		<u><u>\$ 6,208,395</u></u>
Committed		
Fire Special	Fire department operations and capital	\$ 598,833
Nonmajor Governmental	Community center	87,834
Total Committed Fund Balance		<u><u>\$ 686,667</u></u>
Assigned		
Fire Special	Fire department operations and capital	\$ 612,353
General Capital Projects	Capital outlay	949,751
Park and Recreation	Parks	567,967
Downtown Improvements	Capital outlay	166,644
Total Assigned Fund Balance		<u><u>\$ 2,296,715</u></u>

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

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

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

General Employees Retirement Plan

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

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.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2021, 2020 and 2019 were \$41,893, \$37,971 and \$35,345, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

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

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$316,013 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 \$9,744. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0074 percent which was an increase of 0.0003 percent from its proportion measured as of June 30, 2020.

City's Proportionate Share of the Net Pension Liability	\$ 316,013
State of Minnesota's Proportionate Share	<u>9,744</u>
Total	<u><u>\$ 325,757</u></u>

For the year ended December 31, 2021, the City recognized pension expense of \$4,442 its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$786 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2021, the City reported its proportionate share of General Employee Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 1,627	\$ 9,626
Changes in Actuarial Assumptions	192,949	6,437
Net Difference Between Projected and Actual Earnings on Plan Investments	-	273,554
Changes in Proportion	38,467	-
Contributions paid to PERA Subsequent to the Measurement Date	<u>21,135</u>	<u>-</u>
Total	<u><u>\$ 254,178</u></u>	<u><u>\$ 289,617</u></u>

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

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

The \$21,135 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ 7,681
2023	13,288
2024	(2,896)
2025	(74,647)

E. Actuarial Assumptions

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

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter

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

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Stocks	33.50 %	5.10 %
Alternative Assets (Private Markets)	25.00	5.90
Bonds (Fixed Income)	25.00	0.75
International Stocks	16.50	5.30
Total	<u>100.00 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified 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.

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	\$ 644,506	\$ 316,013	\$ 46,465

H. Pension Plan Fiduciary Net Position

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

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

Note 5: Defined Benefit Pension Plans - Fire Relief Association

A. Plan Description

The Montrose Fire Department (the Department) participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum [or monthly] defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2021, the plan covered [X number of] active firefighters and [X number of] vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota statutes, chapter 353g.

B. Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

C. Contributions

The Volunteer Firefighter 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 \$25,644 in fire state aid to the fund for the year ended December 31, 2021. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2021, were \$67,644. The City's contributions were equal to the required contributions as set by state statute.

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

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

D. Pension Costs

At December 31, 2021, the City reported a net pension liability (asset) of (\$349,895) for the Volunteer Firefighter Fund plan. The net pension liability (asset) was measured as of December 31, 2021. The total pension liability used to calculate the net pension liability (asset) in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in the 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, 2020	\$ 1,122,365	\$ 1,386,328	\$ (263,963)
Changes for the Year			
Service cost	31,785	-	31,785
Interest on pension liability (asset)	69,249	-	69,249
Changes in benefit terms	102,745	-	102,745
Actuarial experience (gains)/losses	(87,675)	-	(87,675)
Projected investment return	-	83,180	(83,180)
Contributions (employer)	-	42,000	(42,000)
Nonemployer contributions	-	25,645	(25,645)
(Gain)/loss	-	52,371	(52,371)
Administrative expenses	-	(1,160)	1,160
Total Net Changes	116,104	202,036	(85,932)
Ending Balance December 31, 2020	\$ 1,238,469	\$ 1,588,364	\$ (349,895)

For the year ended December 31, 2021, the City recognized a pension expense of \$96,608.

At December 31, 2021, the City reported deferred inflows of resources to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ -	\$ 100,457
Net Difference Between Projected and Actual Earnings on Plan Investments	-	132,401
Contributions to Plan Subsequent to the Measurement Date	67,645	-
Total	\$ 67,645	\$ 232,858

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

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

The \$67,645 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to the plan will be recognized in pension expense as follows:

2022	\$ (73,673)
2023	(82,081)
2024	(49,094)
2025	(28,010)

E. Actuarial Assumptions

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

Retirement Eligibility at the Later of Age 50 or 20 Years of Service	
Inflation Rate	3% per year
Investment Rate of Return	6.00%

There were no changes in actuarial assumptions in 2021.

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund 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 (asset) for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate 1 percent lower or 1 percent higher than the current discount rate:

	1 Percent Decrease (5.00%)	Current (6.00%)	1 Percent Increase (7.00%)
Defined Benefit Plan	\$ (319,571)	\$ (349,896)	\$ (378,755)

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

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

H. Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota statutes, chapter 11a and chapter 353g.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

I. Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Stocks	35.00 %	5.50 %
International Stocks	15.00	6.00
Bonds	45.00	1.45
Cash	5.00	0.50
Total	<u>100.00 %</u>	

The 6.0 percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during fiscal year 2020 for the Volunteer Firefighter Fund.

J. Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2021, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

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

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. 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. Legal Debt Margin

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

C. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA) program. The amount recorded in the General fund in 2021 was \$202,828, which accounted for 16.44% percent of General fund revenues.

Note 7: COVID-19

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Montrose, Minnesota
Required Supplementary Information
December 31, 2021

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Retirement 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-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2021	0.0074 %	\$ 316,013	\$ 9,744	\$ 325,757	\$ 535,001	59.1 %	87.0 %
6/30/2020	0.0071	425,677	13,092	438,769	504,641	84.4	79.0
6/30/2019	0.0062	342,784	146,660	489,444	438,551	78.2	80.2
6/30/2018	0.0061	338,403	11,100	349,503	409,776	82.6	79.5
6/30/2017	0.0074	472,411	-	472,411	479,819	98.5	75.9
6/30/2016	0.0078	633,321	-	633,321	481,893	131.4	68.9

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 Retirement 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-Employee Payroll (b/c)
12/31/2021	\$ 41,893	\$ 41,893	\$ -	\$ 558,578	7.5 %
12/31/2020	37,971	37,971	-	506,286	7.5
12/31/2019	35,345	35,345	-	471,271	7.5
12/31/2018	31,995	31,995	-	426,601	7.5
12/31/2017	34,429	34,429	-	459,049	7.5
12/31/2016	35,944	35,944	-	479,253	7.5

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

City of Montrose, Minnesota
Required Supplementary Information (Continued)
December 31, 2021

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

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

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

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

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

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

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

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

City of Montrose, Minnesota
Required Supplementary Information (Continued)
December 31, 2021

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

Changes in Plan Provisions

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

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

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

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

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

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

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

City of Montrose, Minnesota
Required Supplementary Information (Continued)
December 31, 2021

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

	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability							
Service cost	\$ 31,785	\$ 34,235	\$ 31,930	\$ 30,934	\$ 26,195	\$ 29,639	\$ 34,456
Interest	69,249	58,345	50,838	48,489	48,646	52,629	31,543
Changes of benefit terms	(87,675)	92,134	128,451	-	-	-	-
Differences between expected and actual experience	102,745	(530)	(47,403)	(55,186)	(38,184)	(101,221)	-
Benefit payments, including refunds of employee contributions	-	-	(82,000)	54,904	(88,000)	-	-
Net Change in Total Pension Liability	116,104	184,184	81,816	79,141	(51,343)	(18,953)	65,999
Total Pension Liability - January 1, 2019	1,122,365	938,181	856,365	777,224	828,567	734,750	668,751
Change in pension plan and measurement date	-	-	-	-	-	112,770	-
Total Pension Liability - December 31, 2019 (a)	\$ 1,238,469	\$ 1,122,365	\$ 938,181	\$ 856,365	\$ 777,224	\$ 828,567	\$ 734,750
Plan Fiduciary Net Position							
Contributions - employer	\$ 21,193	\$ 20,106	\$ 18,504	\$ 17,688	\$ 17,178	\$ 42,000	\$ 42,000
Contributions - state	4,452	4,438	4,284	5,209	4,157	21,093	19,209
Voluntary municipal contribution	42,000	44,000	42,000	42,000	42,000	-	22,572
Net investment income	135,552	173,615	176,754	(39,461)	114,384	51,089	(9,570)
Benefit payments, including refunds of employee contributions	-	-	(82,000)	-	(88,000)	-	-
Administrative expense	(1,080)	(1,110)	(1,200)	(1,080)	(1,110)	(1,080)	-
Other	(80)	(81)	(48)	(56)	(54)	462	-
Net Change in Plan Fiduciary Net Position	202,037	240,968	158,294	24,300	88,555	113,564	74,211
Plan Fiduciary Net Position - January 1, 2019	1,386,328	1,145,360	987,066	962,766	874,211	706,021	631,810
Change in pension plan and measurement date	-	-	-	-	-	54,626	-
Plan Fiduciary Net Position - December 31, 2019 (b)	\$ 1,588,365	\$ 1,386,328	\$ 1,145,360	\$ 987,066	\$ 962,766	\$ 874,211	\$ 706,021
Fire Relief's Net Pension Liability (Asset) - December 31, 2019 (a-b)	\$ (349,896)	\$ (263,963)	\$ (207,179)	\$ (130,701)	\$ (185,542)	\$ (45,644)	\$ 28,729
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability (B/A)	128.25%	123.52%	122.08%	115.26%	123.87%	105.51%	96.09%
Covered-employee Payroll	N/A	N/A	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	N/A	N/A

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

Schedule of Employer's Fire Relief Association Contributions

Year Ending	Actuarial Determined Contribution (a)	Actual Contributions Paid (b)	Contribution Deficiency (Excess) (a-b)
12/31/21	\$ 25,644	\$ 67,644	\$ (42,000)
12/31/20	24,544	68,544	(44,000)
12/31/19	22,788	64,788	(42,000)
12/31/18	22,897	64,897	(42,000)

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 MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
Assets			
Cash and temporary investments	<u>\$ 569,707</u>	<u>\$ (335,487)</u>	<u>\$ 234,220</u>
Liabilities			
Accounts payable	\$ 498	\$ -	\$ 498
Accrued salaries payable	<u>161</u>	<u>-</u>	<u>161</u>
Total Liabilities	<u>659</u>	<u>-</u>	<u>659</u>
Fund Balances			
Restricted	481,214	-	481,214
Committed	87,834	-	87,834
Unassigned	<u>-</u>	<u>(335,487)</u>	<u>(335,487)</u>
Total Fund Balances	<u>569,048</u>	<u>(335,487)</u>	<u>233,561</u>
Total Liabilities and Fund Balances	<u>\$ 569,707</u>	<u>\$ (335,487)</u>	<u>\$ 234,220</u>

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

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ 80,211	\$ -	\$ 80,211
Charges for services	8,456	26,603	35,059
Interest on investments	1,625	-	1,625
Total Revenues	<u>90,292</u>	<u>26,603</u>	<u>116,895</u>
Expenditures			
Current			
Culture and recreation	29,501	-	29,501
Economic development	1,645	-	1,645
Capital outlay			
Public works	-	111,811	111,811
Culture and recreation	4,603	-	4,603
Total Expenditures	<u>35,749</u>	<u>111,811</u>	<u>147,560</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>54,543</u>	<u>(85,208)</u>	<u>(30,665)</u>
Other Financing Sources (Uses)			
Transfers in	-	230,101	230,101
Transfers out	(6,000)	-	(6,000)
Total Other Financing Sources (Uses)	<u>(6,000)</u>	<u>230,101</u>	<u>224,101</u>
Net Change in Fund Balances	48,543	144,893	193,436
Fund Balances, January 1	<u>520,505</u>	<u>(480,380)</u>	<u>40,125</u>
Fund Balances, December 31	<u><u>\$ 569,048</u></u>	<u><u>\$ (335,487)</u></u>	<u><u>\$ 233,561</u></u>

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

	202	275/285	290	
	Small Cities	Economic Development Authority	Community Center	Total
Assets				
Cash and temporary investments	<u>\$ 8,883</u>	<u>\$ 472,331</u>	<u>\$ 88,493</u>	<u>\$ 569,707</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 498	\$ 498
Accrued salaries payable	<u>-</u>	<u>-</u>	<u>161</u>	<u>161</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>659</u>	<u>659</u>
Fund Balances				
Restricted	8,883	472,331	-	481,214
Committed	<u>-</u>	<u>-</u>	<u>87,834</u>	<u>87,834</u>
Total Fund Balances	<u>8,883</u>	<u>472,331</u>	<u>87,834</u>	<u>569,048</u>
 Total Liabilities and Fund Balances	 <u>\$ 8,883</u>	 <u>\$ 472,331</u>	 <u>\$ 88,493</u>	 <u>\$ 569,707</u>

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

	202	275/285	290	
	Small	Economic	Community	Total
	Cities	Development	Center	
		Authority		
Revenues				
Taxes	\$ -	\$ 49,571	\$ 30,640	\$ 80,211
Charges for services	-	-	8,456	8,456
Interest on investments	-	1,392	233	1,625
Total Revenues	<u>-</u>	<u>50,963</u>	<u>39,329</u>	<u>90,292</u>
Expenditures				
Current				
Culture and recreation	-	-	29,501	29,501
Economic development	-	1,645	-	1,645
Capital outlay				
Culture and recreation	-	-	4,603	4,603
Total Expenditures	<u>-</u>	<u>1,645</u>	<u>34,104</u>	<u>35,749</u>
Excess of Revenues Over Expenditures	-	49,318	5,225	54,543
Other Financing Uses				
Transfers out	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>
Net Change in Fund Balances	-	43,318	5,225	48,543
Fund Balances, January 1	<u>8,883</u>	<u>429,013</u>	<u>82,609</u>	<u>520,505</u>
Fund Balances, December 31	<u>\$ 8,883</u>	<u>\$ 472,331</u>	<u>\$ 87,834</u>	<u>\$ 569,048</u>

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

	501	504	515	
	A.U.A.R	Hwy 25 Improvements	2020 Street Improvements	Total
Assets				
Cash and temporary investments	<u>\$ (266,671)</u>	<u>\$ -</u>	<u>\$ (68,816)</u>	<u>\$ (335,487)</u>
Fund Balances				
Unassigned	<u>\$ (266,671)</u>	<u>\$ -</u>	<u>\$ (68,816)</u>	<u>\$ (335,487)</u>

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

	501	504	512	515	
	<u>A.U.A.R.</u>	<u>Hwy. 25 Improvements</u>	<u>Emerson Ave. Street Project</u>	<u>2020 Street Improvements</u>	<u>Total</u>
Revenues					
Charges for services	\$ -	\$ 26,603	\$ -	\$ -	\$ 26,603
Expenditures					
Capital outlay					
Public works	-	51,161	-	60,650	111,811
Deficiency of Revenues					
Under Expenditures	-	(24,558)	-	(60,650)	(85,208)
Other Financing Sources (Uses)					
Transfers in	-	230,101	-	-	230,101
Net Change in Fund Balances	-	205,543	-	(60,650)	144,893
Fund Balances, January 1	<u>(266,671)</u>	<u>(205,543)</u>	<u>-</u>	<u>(8,166)</u>	<u>(480,380)</u>
Fund Balances, December 31	<u>\$ (266,671)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (68,816)</u>	<u>\$ (335,487)</u>

City of Montrose, Minnesota
Combining Statement of Net Position
Nonmajor Proprietary Funds
December 31, 2021

	Business-type Activities - Enterprise Funds		
	603	604	
	Refuse	Storm Water	Totals
Assets			
Current Assets			
Cash and temporary investments	\$ 225,155	\$ 1,300,454	\$ 1,525,609
Receivables			
Accounts	-	7,321	7,321
Total Current Assets	<u>225,155</u>	<u>1,307,775</u>	<u>1,532,930</u>
Noncurrent Assets			
Capital Assets			
Building and structures	-	794,611	794,611
Construction in process	-	55,086	55,086
Less: accumulated depreciation	-	(287,065)	(287,065)
Net Capital Assets	<u>-</u>	<u>562,632</u>	<u>562,632</u>
Total Noncurrent Assets	<u>-</u>	<u>562,632</u>	<u>562,632</u>
Total Assets	<u>225,155</u>	<u>1,870,407</u>	<u>2,095,562</u>
Deferred Outflows of Resources			
Deferred pension resources	<u>8,635</u>	<u>11,574</u>	<u>20,209</u>
Liabilities			
Current Liabilities			
Accrued salaries payable	-	874	874
Accrued interest payable	-	4,777	4,777
Compensated absences - current	406	648	1,054
Total Current Liabilities	<u>406</u>	<u>6,299</u>	<u>6,705</u>
Noncurrent Liabilities			
Compensated absences	101	162	263
Net pension liability	10,736	14,390	25,126
Bonds payable	-	1,046,654	1,046,654
Total Noncurrent Liabilities	<u>10,837</u>	<u>1,061,206</u>	<u>1,072,043</u>
Total Liabilities	<u>11,243</u>	<u>1,067,505</u>	<u>1,078,748</u>
Deferred Inflows of Resources			
Deferred pension resources	<u>9,839</u>	<u>13,188</u>	<u>23,027</u>
Net Position			
Net investment in capital assets	-	455,892	455,892
Unrestricted	<u>212,708</u>	<u>345,396</u>	<u>558,104</u>
Total Net Position	<u>\$ 212,708</u>	<u>\$ 801,288</u>	<u>\$ 1,013,996</u>

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

	Business-type Activities - Enterprise Funds		
	603	604	
	Refuse	Storm Water	Totals
Operating Revenues			
Charges for services	\$ 62,244	\$ 79,047	\$ 141,291
Operating Expenses			
Personal services	29,628	36,173	65,801
Supplies	809	499	1,308
Professional services	67,114	633	67,747
Repairs and maintenance	-	3,923	3,923
Utilities	1,037	257	1,294
Depreciation	-	17,627	17,627
Total Operating Expenses	98,588	59,112	157,700
Operating Income (Loss)	(36,344)	19,935	(16,409)
Nonoperating Revenues (Expenses)			
Intergovernmental	3,515	-	3,515
Interest on investments	629	2,159	2,788
Other income	2,786	36	2,822
Interest and service charges	-	(23,446)	(23,446)
Total Nonoperating Revenues (Expenses)	6,930	(21,251)	(14,321)
Change in Net Position	(29,414)	(1,316)	(30,730)
Net Position, January 1	242,122	802,604	1,044,726
Net Position, December 31	\$ 212,708	\$ 801,288	\$ 1,013,996

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

	Business-type Activities - Enterprise Funds		
	603	604	
	Refuse	Storm Water	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 88,633	\$ 79,040	\$ 167,673
Payments to suppliers	(70,562)	(5,449)	(76,011)
Payments to employees	(35,824)	(39,970)	(75,794)
Net Cash Provided (Used) by Operating Activities	(17,753)	33,621	15,868
Cash Flows from Noncapital Financing Activities			
Grants received	3,515	-	3,515
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	-	(55,086)	(55,086)
Bond proceeds	-	1,027,985	1,027,985
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	-	972,899	972,899
Cash Flows from Investing Activities			
Interest received on investments	629	2,159	2,788
Net Increase (Decrease) in Cash and Cash Equivalents	(13,609)	1,008,679	995,070
Cash and Cash Equivalents, January 1	238,764	291,775	530,539
Cash and Cash Equivalents, December 31	<u>\$ 225,155</u>	<u>\$ 1,300,454</u>	<u>\$ 1,525,609</u>

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

	2021			2020	
	Budgeted Amounts		Actual Amounts	Variance With Final Budget	Actual Amounts
	Original	Final			
Revenues					
Taxes					
General property taxes	\$ 557,180	\$ 557,180	\$ 567,499	\$ 10,319	\$ 543,962
Franchise fee	164,000	164,000	174,529	10,529	158,250
Total taxes	<u>721,180</u>	<u>721,180</u>	<u>742,028</u>	<u>20,848</u>	<u>702,212</u>
Licenses and permits	<u>45,600</u>	<u>45,600</u>	<u>135,125</u>	<u>89,525</u>	<u>97,789</u>
Intergovernmental					
Federal grants					
CARES	-	-	-	-	203,028
State grants					
Local government aid	202,828	202,828	202,828	-	364,613
Property tax credits	300	300	388	88	525
Police aid	11,000	11,000	15,872	4,872	16,277
Other grants and aid	2,000	2,000	1,938	(62)	6,000
County					
Other grants and aid	1,000	1,000	1,328	328	1,507
Total intergovernmental	<u>217,128</u>	<u>217,128</u>	<u>222,354</u>	<u>5,226</u>	<u>591,950</u>
Charges for services	<u>27,900</u>	<u>27,900</u>	<u>37,578</u>	<u>9,678</u>	<u>31,471</u>
Interest on investments	<u>7,000</u>	<u>7,000</u>	<u>4,396</u>	<u>(2,604)</u>	<u>11,127</u>
Miscellaneous					
Refunds and reimbursements	-	-	12,919	12,919	6,586
Other	-	-	79,400	79,400	18
Total miscellaneous	<u>-</u>	<u>-</u>	<u>92,319</u>	<u>92,319</u>	<u>6,604</u>
Total Revenues	<u>1,018,808</u>	<u>1,018,808</u>	<u>1,233,800</u>	<u>214,992</u>	<u>1,441,153</u>
Expenditures					
Current					
General government					
Mayor and Council					
Personal services	14,680	14,680	13,556	1,124	13,951
Supplies	4,400	4,400	1,784	2,616	1,177
Other services and charges	6,800	6,800	5,120	1,680	4,516
Total Mayor and Council	<u>25,880</u>	<u>25,880</u>	<u>20,460</u>	<u>5,420</u>	<u>19,644</u>

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

	2021			2020
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final		
Expenditures (Continued)				
Current (continued)				
General government (continued)				
Election and voters' registration				
Personal services	\$ -	\$ -	\$ -	\$ 3,339
Other services and charges	3,000	3,000	378	991
Total election and voters' registration	3,000	3,000	378	4,330
City clerk				
Personal services	90,700	90,700	116,864	80,599
Supplies	10,100	10,100	3,994	6,810
Other services and charges	71,300	71,300	59,435	116,492
Total city clerk	172,100	172,100	180,293	203,901
Assessing				
Other services and charges	27,000	27,000	25,804	24,772
Auditing				
Other services and charges	35,050	35,050	34,550	30,529
Legal				
Other services and charges	30,000	30,000	30,751	17,835
Planning and zoning				
Personal services	50,300	50,300	56,890	38,364
Supplies	1,050	1,050	881	221
Other services and charges	32,900	32,900	23,989	18,224
Total planning and zoning	84,250	84,250	81,760	56,809
City property				
Other services and charges	11,500	11,500	11,023	11,739
Total general government	388,780	388,780	385,019	369,559
Public safety				
Police protection				
Other services and charges	298,388	298,388	298,388	286,395
Fire protection				
Other services and charges	-	-	-	136,514
Pension benefit	12,000	12,000	12,000	12,000
Total fire protection	12,000	12,000	12,000	148,514
Building inspection				
Other services and charges	35,000	35,000	61,086	43,352
Animal control				
Other services and charges	300	300	85	-

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

	2021				2020
	Budgeted Amounts		Actual	Variance With	Actual
	Original	Final	Amounts	Final Budget	Amounts
Expenditures (Continued)					
Current (continued)					
Public safety (continued)					
Civil defense					
Personal services	\$ 1,940	\$ 1,940	\$ -	\$ 1,940	\$ 1,938
Supplies	5,500	5,500	-	5,500	-
Total civil defense	7,440	7,440	-	7,440	1,938
Total public safety	353,128	353,128	371,559	(18,431)	480,199
Public works					
Streets					
Personal services	67,500	67,500	60,631	6,869	57,838
Supplies	58,300	58,300	38,008	20,292	36,282
Other services and charges	47,100	47,100	36,764	10,336	53,138
Total public works	172,900	172,900	135,403	37,497	147,258
Total current	914,808	914,808	891,981	22,827	997,016
Capital outlay					
General government	11,000	11,000	1,299	9,701	4,288
Public safety	5,000	5,000	769	4,231	288
Public works	96,500	96,500	4,690	91,810	80,600
Total capital outlay	112,500	112,500	6,758	105,742	85,176
Total Expenditures	1,027,308	1,027,308	898,739	128,569	1,082,192
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(8,500)	(8,500)	335,061	343,561	358,961
Other Financing Sources (Uses)					
Transfers in	8,500	8,500	8,500	-	2,500
Transfers out	-	-	(230,101)	(230,101)	-
Total Other Financing Sources (Uses)	8,500	8,500	(221,601)	(230,101)	2,500
Net Change in Fund Balances	-	-	113,460	113,460	361,461
Fund Balances, January 1	1,604,952	1,604,952	1,604,952	-	1,243,491
Fund Balances, December 31	\$ 1,604,952	\$ 1,604,952	\$ 1,718,412	\$ 113,460	\$ 1,604,952

City of Montrose, Minnesota
Debt Service Funds
Combining Balance Sheet
December 31, 2021

	303 Montrose Meadows	307 CSAH 12 Wells/Lift	308 Buffalo Avenue	313 Clementa Avenue	Total
Assets					
Cash and temporary investments	<u>\$ 39,290</u>	<u>\$ 17</u>	<u>\$ 135,164</u>	<u>\$ 410,948</u>	<u>\$ 585,419</u>
Fund Balances					
Restricted for debt service	<u>\$ 39,290</u>	<u>\$ 17</u>	<u>\$ 135,164</u>	<u>\$ 410,948</u>	<u>\$ 585,419</u>

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

	303 Montrose Meadows	305 Downtown	307 CSAH 12 Wells/Lift	308 Buffalo Avenue	313 Clementa Avenue	Total
Revenues						
Taxes	\$ 60,000	\$ -	\$ 175,000	\$ -	\$ 66,960	\$ 301,960
Interest on investments	103	-	-	532	1,162	1,797
Total Revenues	<u>60,103</u>	<u>-</u>	<u>175,000</u>	<u>532</u>	<u>68,122</u>	<u>303,757</u>
Expenditures						
Debt service						
Principal	51,000	-	185,000	100,000	90,000	426,000
Interest and service charges	6,112	2,383	10,503	1,600	12,660	33,258
Total Expenditures	<u>57,112</u>	<u>2,383</u>	<u>195,503</u>	<u>101,600</u>	<u>102,660</u>	<u>459,258</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,991</u>	<u>(2,383)</u>	<u>(20,503)</u>	<u>(101,068)</u>	<u>(34,538)</u>	<u>(155,501)</u>
Other Financing Sources (Uses)						
Transfers in	-	2,383	20,503	-	-	22,886
Transfers out			-	(20,503)	-	(20,503)
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,383</u>	<u>20,503</u>	<u>(20,503)</u>	<u>-</u>	<u>2,383</u>
Net Change in Fund Balances	2,991	-	-	(121,571)	(34,538)	(153,118)
Fund Balances, January 1	<u>36,299</u>		<u>17</u>	<u>256,735</u>	<u>445,486</u>	<u>738,537</u>
Fund Balances, December 31	<u>\$ 39,290</u>	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 135,164</u>	<u>\$ 410,948</u>	<u>\$ 585,419</u>

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

	Totals		Percent Increase (Decrease)
	2021	2020	
Revenues			
Taxes	\$ 1,534,313	\$ 1,453,457	5.56 %
Licenses and permits	135,125	97,789	38.18
Intergovernmental	721,956	851,516	(15.22)
Charges for services	164,237	148,217	10.81
Special assessments	226,872	233,207	(2.72)
Interest on investments	21,318	34,556	(38.31)
Miscellaneous	131,272	21,669	505.81
Total Revenues	<u>\$ 2,935,093</u>	<u>\$ 2,840,411</u>	3.33 %
Per Capita	<u>\$ 778</u>	<u>\$ 856</u>	
Expenditures			
Current			
General government	\$ 385,019	\$ 399,515	(3.63) %
Public safety	570,633	650,820	(12.32)
Public works	135,403	147,258	(8.05)
Culture and recreation	123,069	107,422	14.57
Economic development	1,645	1,568	4.91
Capital outlay			
General government	49,980	4,288	1,065.58
Public safety	17,529	280,520	(93.75)
Public works	689,489	556,597	23.88
Culture and recreation	83,976	19,010	341.75
Debt service			
Principal	426,000	410,000	3.90
Interest and service charges	139,323	40,792	241.54
Total Expenditures	<u>\$ 2,622,066</u>	<u>\$ 2,617,790</u>	0.16 %
Per Capita	<u>\$ 695</u>	<u>\$ 788</u>	
Total Long-term Indebtedness	<u>\$ 6,854,000</u>	<u>\$ 1,470,000</u>	366.26 %
Per Capita	<u>\$ 1,816</u>	<u>\$ 443</u>	
General Fund Balance - December 31	<u>\$ 1,718,412</u>	<u>\$ 1,604,952</u>	7.07 %
Per Capita	<u>\$ 455</u>	<u>\$ 483</u>	

The purpose of this report is to provide a summary of financial information concerning the City of Montrose to interested citizens. The complete financial statements may be examined at City Hall, PO Box 25, 311 Buffalo Avenue South, Montrose, Minnesota 55363. Questions about this report should be directed to Michael Sommerfeld, Clerk/Treasurer at (763) 575-7425.

OTHER REQUIRED REPORTS

CITY OF MONTROSE
MONTROSE, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Montrose, 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 Montrose, Minnesota (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 17, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions, 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
Minneapolis, Minnesota
May 17, 2022

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

Honorable Mayor and City Council, Minnesota
City of Montrose, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montrose, Minnesota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 17, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

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 are 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Minneapolis, Minnesota
May 17, 2022



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

<u>Finding</u>	<u>Description</u>
2021-001	Preparation of Financial Statements
<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. 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. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. 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 provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization 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 in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements we recommend the City agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
	For now, the City's management accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.

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

<u>Finding</u>	<u>Description</u>
2021-002	Limited Segregation of Duties
<i>Condition:</i>	During our audit, we reviewed procedures over cash disbursements, receipts, and utility billing, and found the City to have limited segregation of duties related to these transaction cycles.
<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>Cause:</i>	The City had a limited number of staff for a portion of the year to properly segregate duties in these transaction cycles. The Deputy Clerk performed two or more of the general categories of duties in each of the transaction cycles identified.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.
<i>Recommendation:</i>	We recommend the City review and analyze its internal controls as staffing has changed, and implement changes and compensating controls considered necessary.
<i>Management Response:</i>	
Management recognizes that with the change in staffing that this was a deficiency since 2015, and is relying on continued oversight by management and the City Council to monitor this deficiency. This has been addressed by hiring a city administrator who will perform some of the duties.	