

**City of Montrose
Genesee County, Michigan**

FINANCIAL STATEMENTS

June 30, 2015

City of Montrose
Genesee County, Michigan

June 30, 2015

CITY COUNCIL

Colleen Brown	Mayor
Ray Foust	Mayor Pro-Tem
Robert Arnold	Council Member
Agnes House-Johnson	Council Member
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City of Montrose

Genesee County, Michigan

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City of Montrose

Genesee County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Montrose, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits continued in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note N to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year. As a result, the financial statements now recognize the City's unfunded defined pension benefit obligation as a liability for the first time and more comprehensively and comparably measures the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). Our opinions are not modified with respect to this matter.

Also as discussed in Note N to the financial statements, the City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, during the year. As a result, the City recognized a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in employer's net position liability and related ratios, and schedules of funding progress and employer contributions, as identified in the table of contents, 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 combining and individual nonmajor fund financial statements, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The combining and individual nonmajor fund financial statements is the responsibility of management and was derived from and relates 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015, 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 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 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 23, 2015

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

The following is a discussion and analysis of City of Montrose's (the City's) financial performance and position, providing an overview of the activities for the fiscal year ended June 30, 2015. This analysis should be read in conjunction with the *Independent Auditor's Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net position was \$3,183,423 (excluding component units).
- Governmental activities net position was \$920,882.
- Business-type activities net position was \$2,262,541.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$381,489 with \$43,504 being constrained for specific purposes.
- The General Fund operations expended \$42,015 more than appropriated.
- Overall, the General Fund balance increased by \$5,799 to \$345,405 - of which \$337,985 is considered unassigned and available for general operations.

Capital and Long-term Debt Activities:

- The total long-term debt for the primary government was \$1,649,363, an increase of \$647,577 from the prior year.
- The City remains well below its authorized legal debt limit of \$2,527,857 (10% of the State equalized assessed value).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis*; 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements); 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds; and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Position and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question: Is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Position (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net position". Over time, increases or decreases in net position measure whether the City's financial position is improving or deteriorating.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

The Statement of Activities (page 2) presents information showing how the City's net position changed during 2014/2015. All changes in net position are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services, and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, economic development, city improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Sewer System and Water System are examples of these activities.
- **Discretely Presented Component Unit** - The discretely presented component unit (Downtown Development Authority) is a legally separate organization for which the City Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however, they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. GASB Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Montrose include the General Fund, the Major Street Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. major street, local street), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the Capital Projects Fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest, e.g. voted bonds and non-voted bonds funds).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund. *Internal Service funds* report activities of services to municipal departments by a given budgetary center. An example might be a Motor Pool Fund. The city presently does not employ this type of proprietary fund.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Assets and Liabilities on page 11. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue fund.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together and are presented in aggregate single columns in the appropriate basic financial statements.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Montrose combined net position of the primary government was \$3,183,423 at the end of this fiscal year's operations. The net position of the governmental activities was \$920,882; the business-type activities were \$2,262,541.

Net Position as of June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current Assets	\$ 455,718	\$ 453,274	\$ 998,538	\$ 510,418	\$ 1,454,256	\$ 963,692
Capital Assets	1,600,490	17,625	3,335,768	2,064,698	4,936,258	2,082,323
Total Assets	2,056,208	470,899	4,334,306	2,575,116	6,390,514	3,046,015
Deferred Outflows of Resources	12,394	9,048	18,592	13,572	30,986	22,620
Current Liabilities	130,013	109,605	217,595	117,402	347,608	227,007
Noncurrent Liabilities	1,017,707	840,431	1,872,762	732,184	2,890,469	1,572,615
Total Liabilities	1,147,720	950,036	2,090,357	849,586	3,238,077	1,799,622
Net Position						
Net investment in						
Capital Assets	1,061,640	1,051,275	2,240,618	1,614,698	3,302,258	2,665,973
Restricted	33,031	104,212	30,000	71,068	63,031	175,280
Unrestricted	(173,789)	104,026	(8,077)	39,764	(181,866)	143,790
Total Net Position	\$ 920,882	\$ 1,259,513	\$ 2,262,541	\$ 1,725,530	\$ 3,183,423	\$ 2,985,043

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net position changed during the fiscal year. (Note: the 2014 column is prior to the implementation of GASB Statement No. 68, which was effective for fiscal years beginning after June 15, 2014.)

Changes in Net Position for the Fiscal Year Ending June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for						
Services	\$ 235,921	\$ 170,838	\$ 1,026,221	\$ 821,318	\$ 1,262,142	\$ 992,156
Grants and Contributions	229,013	188,810	687,728	14,130	916,741	202,940
General Revenues						
Property Taxes	401,088	402,032	-	-	401,088	402,032
State Shared Revenue	172,806	163,072	-	-	172,806	163,072
Investment Earnings	330	1,217	689	719	1,019	1,936
Miscellaneous	26,003	26,908	15,426	670	41,429	27,578
Transfers	(30,000)	-	30,000	-	-0-	-0-
Total Revenues	1,035,161	952,877	1,760,064	836,837	2,795,225	1,789,714

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Changes in Net Position for the Fiscal Year Ending June 30, 2015 and 2014 - continued

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Expenses						
General Government	\$ 204,191	\$ 203,519	\$ -	\$ -	\$ 204,191	\$ 203,519
Public Safety	390,230	370,086	-	-	390,230	370,086
Public Works	424,534	379,394	-	-	424,534	379,394
Health and Welfare	19,252	9,002	-	-	19,252	9,002
Community and Economic Develop.	605	9,551	-	-	605	9,551
Recreation and Culture	52,368	13,819	-	-	52,368	13,819
Other	-	32,983	1,006,591	936,263	1,006,591	969,246
Total Expenses	<u>1,091,180</u>	<u>1,018,354</u>	<u>1,006,591</u>	<u>936,263</u>	<u>2,097,771</u>	<u>1,954,617</u>
Change in Net Position	(56,019)	(65,477)	753,473	(99,426)	697,454	(164,903)
Net Position - Beginning	<u>976,901</u>	<u>1,324,990</u>	<u>1,509,068</u>	<u>1,824,956</u>	<u>2,485,969</u>	<u>3,149,946</u>
Net Position - Ending	<u>\$ 920,882</u>	<u>\$ 1,259,513</u>	<u>\$ 2,262,541</u>	<u>\$ 1,725,530</u>	<u>\$ 3,183,423</u>	<u>\$ 2,985,043</u>

Governmental Activities:

The result of 2014/2015 governmental activity was a decrease of \$56,019 in net position to \$920,882. Of the total governmental activities' net position, \$1,061,640 is net investment in capital assets; \$63,031 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The deficit balance of \$203,789 is listed as unrestricted.

Revenues:

The three largest revenue categories were property taxes at 38.7%, charges for services at 22.8%, and grant and contributions at 22.1%. The City levied a property tax millage for the year ended June 30, 2015, for general government operations at 17.1776 mills, which is not assigned to any particular activity. Total revenues increased approximately 8.6% from the prior fiscal year. The increase to revenues can be attributed to several factors including taxable property values that increased approximately 1.74% in Genesee County. Another factor would be the additional grants and contributions for capital improvement projects.

Expenses:

Public Safety expended approximately 35.8% of the governmental activities total. Public Works expenditures encompassed approximately 38.9% of the governmental activities total. General Government is the third largest governmental activity, expending approximately 18.7% of the governmental activities total. Total expenditures increased correspondingly with revenue with a rise of 7.2% compared to the prior fiscal year. These increases were expected due to the agreed increase in contracting public safety with the Township.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Changes in Net Position for the Fiscal Year Ending June 30, 2015 and 2014 - continued

Business-type Activities:

Net position in business-type activities increased by \$753,473 during the 2014/2015 fiscal year as a result of activities. Of the business-type activities' net position, \$2,240,618 is net investment in capital assets, and \$30,000 is restricted for debt services, with the deficit balance of \$8,077 considered to be unrestricted, or having no legal commitment. This increase can be attributed to capital improvement projects and the necessary investment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS

As the City completed 2014/2015, its governmental funds reported *combined* fund balances of \$411,489. This is a net decrease of \$31,429. The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Major Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance 6/30/2015	\$ 345,405	\$ 18,650	\$ 17,434	\$ 381,489
Fund Balance 6/30/2014	<u>339,606</u>	<u>64,553</u>	<u>38,759</u>	<u>442,918</u>
Net Change	<u><u>\$ 5,799</u></u>	<u><u>\$ (45,903)</u></u>	<u><u>\$ (21,325)</u></u>	<u><u>\$ (61,429)</u></u>

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by an external party, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2015, the General Fund reported a fund balance of \$345,405. This amount is an increase of \$5,799 from the fund balance of \$339,606 reported as of June 30, 2014.

The General Fund 2014/2015 revenues exceeded 2014/2015 expenditures by \$40,580 largely due to collection of delinquent properties including payments-in-lieu of taxes.

General Fund Budgetary Highlights:

The City of Montrose's budget is a dynamic document. Although adopted in June (prior to the start of the fiscal year), the budget is routinely amended during the course of the year to reflect changing operational demands. The City Council originally appropriated \$814,307 to cover anticipated expenditures and other financing uses. The City Council's final amendment to the budget decreased expected revenues by \$64,135 to \$735,446 and decreased anticipated expenditures and other financing uses by \$77,375 to \$736,932. The most significant budget adjustments can be noted in the Department of Public Works and Transfers Out functions of the City.

Actual General Fund revenue totaled \$784,746, or \$49,300 more than the final amended budget. This larger than expected revenue is attributable to additional rents collected (\$6,688) and local contributions received during the current fiscal year.

Actual General Fund expenditures and other financing uses for 2014/2015 was \$778,947, or \$42,015 above the final amended budget.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Major Street Fund

As of June 30, 2015, the Major Street Fund reported a fund balance of \$18,650, which is a decrease of \$45,903 from the prior year. This decrease is associated with the extra road work and clean up required for the USDA water project.

Enterprise Funds

As the City completed 2014/2015, its enterprise funds reported *combined* net position of \$2,232,541. This is a net increase of \$718,763. The net changes are summarized in the following chart.

	<u>Sewer System Fund</u>	<u>Water System Street</u>	<u>Total</u>
Net Position 6/30/2015	\$ 620,498	\$ 1,642,043	\$ 2,262,541
Restated Net Position 6/30/2014	<u>636,633</u>	<u>872,435</u>	<u>1,509,068</u>
Net Change	<u>\$ (16,135)</u>	<u>\$ 769,608</u>	<u>\$ 753,473</u>

Sewer System Fund

As of June 30, 2015, the Sewer System Fund reported net position of \$620,498, a decrease of \$16,135 from the prior year. The net position balance is divided between \$642,351 net investment in capital assets and a deficit of \$21,853 as unrestricted.

Water System Fund

As of June 30, 2015, the Water System Fund reported a fund balance of \$1,642,043, an increase of \$769,608 from the prior year. The net position balance is divided between \$1,598,267 net investment in capital assets, \$30,000 restricted for debt services, and \$13,776 as unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2014/2015, the City had invested \$4,936,258, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note D of the Financial Statements. Net Book value of capital assets at June 30, 2015, was as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 124,200	\$ 50,620	\$ 174,820
Construction in progress	-	1,526,779	1,526,779
Buildings, vehicles, and equipment, net	128,664	-	128,664
Sewer system, net	-	587,606	587,606
Water system, net	-	1,170,763	1,170,763
Infrastructure			
Streets & Bridges, net	<u>1,347,626</u>	<u>-</u>	<u>1,347,626</u>
Capital assets, net	<u>\$ 1,600,490</u>	<u>\$ 3,335,768</u>	<u>\$ 4,936,258</u>

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Long-term Debt - As of June 30, 2015, the City had \$1,649,363 in bonds outstanding for the primary government. This level of net obligation is \$647,577 more than the obligation recorded as of June 30, 2014. Outstanding long-term debt at June 30, 2015, was as follows:

Primary Government	July 1, 2014	Additions	Deletions	June 30, 2015
Governmental Activities				
General Obligation Bonds	\$ 625,660	\$ -	\$ (86,810)	\$ 538,850
Compensated Absences	6,142	11,707	(10,034)	7,815
Business-type Activities				
General Obligation Bonds	364,340	800,000	(69,190)	1,095,150
Compensated Absences	5,644	10,756	(8,852)	7,548
Total Reporting Entity	\$ 1,001,786	\$ 822,463	\$ (174,886)	\$ 1,649,363

A more detailed discussion of the City's long-term debt obligations is presented in Note E to the financial statements.

ECONOMIC OUTLOOK:

- City Council hired a new City Manager in October of 2015. The new manager will be implementing long-term multi-year budgets and reviewing all significant costs including payroll and related fringe benefits to help ensure long-term sustainability of the city.
- City Manager will address long term financial issues such as infrastructure investment, downtown and commercial investment and code enforcement. These areas directly impact taxable property values.
- Identifying savings in areas such as shared and contracted services. Developing purchasing agreements with other governmental entities to lower costs.
- The City currently levies the maximum allowable millage rate of 17.1776. Although revenues are expected to remain stable, they will also be flat. It is essential to continually monitor the budget, to search for new sources of revenue, and explore ideas to reduce costs. These areas would include identifying grants available for future capital improvement projects.
- The City's decision makers will remain vigilant trying to address the liability accruing for OPEB (Other Post-Employment Benefits), health insurance, and retirement benefits. Identifying health care insurance. The actions taken to reduce this liability in 2012 (employee cost sharing, reduction of health insurance benefits and the elimination of retirement health insurance benefits for new hires) were positive steps in the right direction. Annual review of available healthcare plans will ensure the city has affordable healthcare for full time employees.
- The City will continue to at least annually review fees for permits, rates and fines. This includes as well as Water and Sewer Funds and increasing water and sewer rates as needed to ensure adequate cash flow for the operations, maintenance, and replacement of the system.

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City's Office at (810) 639-6168.

BASIC FINANCIAL STATEMENTS

City of Montrose

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 346,899	\$ 537,897	\$ 884,796	\$ 63,318
Restricted cash	-	30,000	30,000	-
Investments	-	201,500	201,500	-
Receivables	48,941	172,326	221,267	-
Due from other governmental units	55,314	51,686	107,000	-
Prepays	4,564	5,129	9,693	-
Total current assets	455,718	998,538	1,454,256	63,318
Noncurrent assets				
Capital assets not being depreciated	124,200	1,577,399	1,701,599	46,768
Capital assets, net of accumulated depreciation	1,476,290	1,758,369	3,234,659	30,917
Total noncurrent assets	1,600,490	3,335,768	4,936,258	77,685
TOTAL ASSETS	2,056,208	4,334,306	6,390,514	141,003
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	12,394	18,592	30,986	-
LIABILITIES				
Current liabilities				
Accounts payable	15,012	133,852	148,864	806
Accrued liabilities	7,352	4,150	11,502	135
Accrued interest payable	4,598	2,855	7,453	-
Escrow deposit	8,426	-	8,426	-
Current portion of compensated absences	7,815	7,548	15,363	-
Current portion of long-term debt	86,810	69,190	156,000	-
Total current liabilities	130,013	217,595	347,608	941
Noncurrent liabilities				
Noncurrent portion of long-term debt	452,040	1,025,960	1,478,000	-
Net other post-employment benefits obligation	331,895	496,146	828,041	-
Net pension liability	233,772	350,656	584,428	-
Total noncurrent liabilities	1,017,707	1,872,762	2,890,469	-0-
TOTAL LIABILITIES	1,147,720	2,090,357	3,238,077	941
NET POSITION				
Net investment in capital assets	1,061,640	2,240,618	3,302,258	77,685
Restricted	33,031	30,000	63,031	-
Unrestricted	(173,789)	(8,077)	(181,866)	62,377
TOTAL NET POSITION	\$ 920,882	\$ 2,262,541	\$ 3,183,423	\$ 140,062

See accompanying notes to financial statements.

City of Montrose
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit (DDA)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 204,191	\$ 46,193	\$ -	\$ -	\$ (157,998)	\$ -	\$ (157,998)	\$ -
Public safety	390,230	7,891	-	-	(382,339)	-	(382,339)	-
Public works	424,534	159,220	135,486	93,527	(36,301)	-	(36,301)	-
Health and welfare	19,252	20,880	-	-	1,628	-	1,628	-
Community and economic development	605	1,577	-	-	972	-	972	-
Recreation and culture	52,368	160	-	-	(52,208)	-	(52,208)	-
Total governmental activities	1,091,180	235,921	135,486	93,527	(626,246)	-0-	(626,246)	-0-
Business-type activities								
Sewer system	410,506	379,553	-	7,467	-	(23,486)	(23,486)	-
Water system	596,085	646,668	-	680,261	-	730,844	730,844	-
Total business-type activities	1,006,591	1,026,221	-0-	687,728	-0-	707,358	707,358	-0-
Total primary government	<u>\$ 2,097,771</u>	<u>\$ 1,262,142</u>	<u>\$ 135,486</u>	<u>\$ 781,255</u>	(626,246)	707,358	81,112	-0-
Component unit								
Downtown Development Authority	<u>\$ 67,787</u>	<u>\$ -</u>	<u>\$ 5,985</u>	<u>\$ -</u>	-	-	-0-	(61,802)
General revenues								
Property taxes					401,088	-	401,088	55,117
State shared revenues					172,806	-	172,806	-
Investment earnings					330	689	1,019	25
Miscellaneous					26,003	15,426	41,429	-
Transfers					(30,000)	30,000	-0-	-
Total general revenues and transfers					570,227	46,115	616,342	55,142
Change in net position					(56,019)	753,473	697,454	(6,660)
Restated net position, beginning of the year					976,901	1,509,068	2,485,969	146,722
Net position, end of the year					<u>\$ 920,882</u>	<u>\$ 2,262,541</u>	<u>\$ 3,183,423</u>	<u>\$ 140,062</u>

See accompanying notes to financial statements.

City of Montrose
Governmental Funds
BALANCE SHEET
June 30, 2015

	General	Special Revenue Major Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 327,766	\$ 2,984	\$ 16,149	\$ 346,899
Receivables				
Accounts	5,502	-	-	5,502
Special assessments	-	26,437	17,002	43,439
Due from other governmental units	29,948	19,790	5,576	55,314
Prepays	2,639	962	963	4,564
	<u>365,855</u>	<u>50,173</u>	<u>39,690</u>	<u>455,718</u>
TOTAL ASSETS	\$ 365,855	\$ 50,173	\$ 39,690	\$ 455,718
LIABILITIES				
Accounts payable	\$ 7,090	\$ 3,967	\$ 3,955	\$ 15,012
Accrued liabilities	4,934	1,119	1,299	7,352
Escrow deposit	8,426	-	-	8,426
	<u>20,450</u>	<u>5,086</u>	<u>5,254</u>	<u>30,790</u>
TOTAL LIABILITIES	20,450	5,086	5,254	30,790
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	26,437	17,002	43,439
FUND BALANCES				
Nonspendable	2,639	962	963	4,564
Restricted	4,781	17,688	8,637	31,106
Committed	-	-	7,834	7,834
Unassigned	337,985	-	-	337,985
	<u>345,405</u>	<u>18,650</u>	<u>17,434</u>	<u>381,489</u>
TOTAL FUND BALANCES	345,405	18,650	17,434	381,489
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 365,855	\$ 50,173	\$ 39,690	\$ 455,718

See accompanying notes to financial statements.

City of Montrose

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2015

Total fund balances - governmental funds \$ 381,489

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,811,543	
Accumulated depreciation is	<u>(1,211,053)</u>	
Capital assets, net		1,600,490

Long-term receivables are not available to pay for current period expenditures and, therefore, considered unavailable in the funds. These consist of:

Unavailable revenue		43,439
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions		12,394
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	538,850	
Net other post-employment benefits obligation	331,895	
Accrued interest payable	4,598	
Net pension liability	233,772	
Compensated absences	<u>7,815</u>	
		<u>(1,116,930)</u>

Net position of governmental activities \$ 920,882

City of Montrose

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2015

	General	Special Revenue Major Street	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 425,452	\$ -	\$ -	\$ 425,452
Licenses and permits	25,395	-	-	25,395
Intergovernmental	214,631	125,701	33,271	373,603
Charges for services	28,077	-	71,931	100,008
Fines and forfeits	3,612	-	-	3,612
Interest and rents	72,979	13	1,603	74,595
Other	14,600	-	23,942	38,542
TOTAL REVENUES	784,746	125,714	130,747	1,041,207
EXPENDITURES				
Current				
General government	147,027	-	-	147,027
Public safety	390,230	-	-	390,230
Public works	79,129	136,169	149,283	364,581
Health and welfare	-	-	19,252	19,252
Community and economic development	605	-	-	605
Recreation and culture	15,313	-	-	15,313
Debt service	105,624	-	-	105,624
Capital outlay	6,238	-	23,766	30,004
TOTAL EXPENDITURES	744,166	136,169	192,301	1,072,636
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	40,580	(10,455)	(61,554)	(31,429)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	40,229	40,229
Transfers out	(34,781)	(35,448)	-	(70,229)
TOTAL OTHER FINANCING SOURCES (USES)	(34,781)	(35,448)	40,229	(30,000)
NET CHANGE IN FUND BALANCES	5,799	(45,903)	(21,325)	(61,429)
Fund balances, beginning of year	339,606	64,553	38,759	442,918
Fund balances, end of year	<u>\$ 345,405</u>	<u>\$ 18,650</u>	<u>\$ 17,434</u>	<u>\$ 381,489</u>

See accompanying notes to financial statements.

City of Montrose

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (61,429)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 29,366	
Depreciation expense	<u>(93,053)</u>	
Excess of depreciation expense over capital outlay		(63,687)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in unavailable revenue was: 23,954

Certain transactions related to long-term debt are reported as expenditures in governmental funds, but are reflected as decreases of the liabilities in the statement of net position. In the current year, these amounts consist of:

Bond principal retirement		86,810
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Some items 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. These activities consist of:

(Increase) in net other post-employment benefit obligation	(35,933)	
Decrease in accrued interest payable	636	
(Increase) in net pension liability	(8,043)	
Increase in deferred outflows of resources related to pensions	3,346	
(Increase) in compensated absences	<u>(1,673)</u>	
		<u>(41,667)</u>

Change in net position of governmental activities \$ (56,019)

City of Montrose

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2015

	Sewer System	Water System	Total Proprietary Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 257,540	\$ 280,357	\$ 537,897
Cash - restricted	-	30,000	30,000
Investments	100,750	100,750	201,500
Accounts receivable	65,292	106,849	172,141
Accrued interest	185	-	185
Due from other governmental units	-	51,686	51,686
Prepays	2,500	2,629	5,129
	<u>426,267</u>	<u>572,271</u>	<u>998,538</u>
Total current assets			
Noncurrent assets			
Capital assets not being depreciated	54,745	1,522,654	1,577,399
Capital assets, net of accumulated depreciation	587,606	1,170,763	1,758,369
	<u>642,351</u>	<u>2,693,417</u>	<u>3,335,768</u>
Total noncurrent assets			
TOTAL ASSETS			
	1,068,618	3,265,688	4,334,306
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	9,296	9,296	18,592
LIABILITIES			
Current liabilities			
Accounts payable	28,191	105,661	133,852
Accrued liabilities	2,040	2,110	4,150
Accrued interest payable	-	2,855	2,855
Current portion of compensated absences	3,774	3,774	7,548
Current portion of long-term debt	-	69,190	69,190
	<u>34,005</u>	<u>183,590</u>	<u>217,595</u>
Total current liabilities			
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	1,025,960	1,025,960
Net other post-employment benefits obligation	248,083	248,063	496,146
Net pension liability	175,328	175,328	350,656
	<u>423,411</u>	<u>1,449,351</u>	<u>1,872,762</u>
Total noncurrent liabilities			
TOTAL LIABILITIES			
	<u>457,416</u>	<u>1,632,941</u>	<u>2,090,357</u>
NET POSITION			
Net investment in capital assets	642,351	1,598,267	2,240,618
Restricted for debt service	-	30,000	30,000
Unrestricted	(21,853)	13,776	(8,077)
	<u>\$ 620,498</u>	<u>\$ 1,642,043</u>	<u>\$ 2,262,541</u>
TOTAL NET POSITION			

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2015

	Sewer System	Water System	Total Proprietary Funds
OPERATING REVENUES			
Charges for services			
User charges	\$ 379,553	\$ 646,668	\$ 1,026,221
Other	3,023	1,710	4,733
Miscellaneous	4,000	6,693	10,693
TOTAL OPERATING REVENUES	386,576	655,071	1,041,647
OPERATING EXPENSES			
Salaries and wages	56,872	58,205	115,077
Fringe benefits	90,110	90,239	180,349
Contractual service	177,729	311,795	489,524
Supplies	3,525	6,260	9,785
Utilities	6,445	8,546	14,991
Insurance	8,542	8,862	17,404
Repairs and maintenance	32,916	26,584	59,500
Other	10,786	10,128	20,914
Depreciation	23,581	53,837	77,418
TOTAL OPERATING EXPENSES	410,506	574,456	984,962
OPERATING INCOME (LOSS)	(23,930)	80,615	56,685
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental	-	656,686	656,686
Hydrant assessments	-	12,580	12,580
Special assessments	7,467	10,995	18,462
Interest revenue	328	361	689
Interest expense	-	(21,629)	(21,629)
TOTAL NONOPERATING REVENUES (EXPENSES)	7,795	658,993	666,788
INCOME (LOSS) BEFORE TRANSFERS	(16,135)	739,608	723,473
TRANSFERS			
Transfers in	-	30,000	30,000
CHANGE IN NET POSITION	(16,135)	769,608	753,473
Restated net position, beginning of year	636,633	872,435	1,509,068
Net position, end of year	\$ 620,498	\$ 1,642,043	\$ 2,262,541

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

	Sewer System	Water System	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 381,171	\$ 596,025	\$ 977,196
Cash paid to suppliers	(242,883)	(317,440)	(560,323)
Cash paid for employee benefits	(28,084)	(28,233)	(56,317)
Cash paid to employees	(56,905)	(58,133)	(115,038)
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,299	192,219	245,518
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	30,000	30,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Hydrant assessments received	-	12,580	12,580
Special assessments received	7,467	10,995	18,462
Interest paid	-	(19,970)	(19,970)
Capital purchases	-	(1,412,446)	(1,412,446)
Capital grants and contributions	-	656,686	656,686
Proceeds from issuance of long-term debt	-	800,000	800,000
Payments on borrowings	-	(69,190)	(69,190)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	7,467	(21,345)	(13,878)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(100,750)	(100,750)	(201,500)
Interest received	328	361	689
NET CASH (USED) BY INVESTING ACTIVITIES	(100,422)	(100,389)	(200,811)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,656)	100,485	60,829
Cash and cash equivalents, beginning of year	297,196	209,872	507,068
Cash and cash equivalents, end of year	<u>\$ 257,540</u>	<u>\$ 310,357</u>	<u>\$ 567,897</u>

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2015

	<u>Sewer System</u>	<u>Water System</u>	<u>Total Proprietary Funds</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (23,930)	\$ 80,615	\$ 56,685
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	23,581	53,837	77,418
(Increase) in:			
Receivables	(5,220)	(7,360)	(12,580)
Accrued interest	(185)	-	(185)
Due from other governmental units	-	(51,686)	(51,686)
Prepays	(1,502)	(1,482)	(2,984)
Deferred outflows of resources related to pensions	(2,510)	(2,510)	(5,020)
Increase (decrease) in:			
Accounts payable	(1,438)	56,217	54,779
Accrued liabilities	(33)	72	39
Compensated absences	952	952	1,904
Net other post-employment benefits obligation	57,553	57,533	115,086
Net pension liability	6,031	6,031	12,062
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 53,299</u>	<u>\$ 192,219</u>	<u>\$ 245,518</u>

City of Montrose

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 26,386</u>
LIABILITIES	
Due to other governmental units	\$ 37
Due to other individuals and agencies	<u>26,349</u>
TOTAL LIABILITIES	<u>\$ 26,386</u>

See accompanying notes to financial statements.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Montrose (the City) is located in Genesee County, Michigan and has a population of approximately 1,657. The City operates with a Council-Manager form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected at large for overlapping four (4) year terms and a Mayor elected at large for a two (2) year term. The Council appoints the City Manager and approves the appointment of the Treasurer, Clerk, Public Works Director, and Assessor based on City Manager recommendations.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to City governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City (primary government) and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

2. Discretely Presented Component Unit

The component unit column in the financial statements includes the financial data of the City's component unit (Downtown Development Authority). The governing body of the Downtown Development Authority (DDA) is appointed by the City Council, the Authority's budget is subject to the approval of the City Council and the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues). The DDA is included in the City's audited financial statements and is not audited separately.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements. 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 presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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.

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for restricted Act 51 financial resources that are used for repairs and maintenance of the City's major streets.

The City reports the following major enterprise funds:

- a. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the City; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- b. The Water System Fund accounts for resources generated by providing water services to residents of the City; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

The City also reports agency funds to account for assets held by the City as an agent for other governments, private organizations, or individuals. Agency funds are, by nature, custodial, therefore, operational results are not measured.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency funds since assets equal liabilities.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both “measurable” and “available to finance expenditures of the current period”). The length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements is generally sixty (60) days. Revenues that are considered measurable but not available are recorded as receivable and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and agency funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

If/when both restricted and unrestricted resources are available for use, it is the City’s practice to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

The General and Special Revenue Funds’ budgets are prepared on a basis consistent with the modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing its budgetary data.

- a. No later than the first regular meeting in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers’ comments.
- c. Not later than the first regular meeting in June, the budget is legally adopted by appropriating the funds necessary to operate.
- d. The budgets for the General Fund and Special Revenue Funds are legally adopted at the functional level; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Any revisions to the budget must be approved by the City Council.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Cash and Cash Equivalents

Cash and cash equivalents consist of various checking accounts and pooled investment accounts. The cash equivalents are recorded at cost, which approximates fair value.

8. Receivables

Receivables consist of amounts due related to charges for services, special assessments, and other amounts owed to the City at year-end.

9. Due from other governmental units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and receivables for charges for services provided to local governmental units.

10. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of fund balance.

11. Property Tax

The City bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the City on July 1 and December 1 and are payable without penalty through September 15 and February 15, respectively. The July 1 levy is composed of the City's millage, the County's millage, special assessments, and the school taxes. The December 1 levy is composed of school taxes and special assessments. All real property taxes not paid to the City by March 1 are turned over to the Genesee County Treasurer for collection. The Genesee County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by Charter to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2015, the City levied 17.1776 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2014 levy for property within the City was \$24,208,856.

12. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between individual governmental and individual proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Compensated Absences

City employees are granted sick and vacation leave in varying amounts. In the event of termination, an employee is paid for accumulated sick and vacation time. All employees with accumulated unused sick and vacation time pay at June 30, 2015, were vested and the total due to them, along with the related payroll taxes, is recorded in the governmental-wide and proprietary funds financial statements. For proprietary funds, the cost is recorded as a fund liability when earned.

14. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities, business-type activities, and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one (1) year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer and Water systems and improvements	10 - 50 years
Furniture and equipment	3 - 15 years
Buildings	25 years
Vehicles	5 - 25 years
Infrastructure	10 - 50 years

15. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has several items that qualify for reporting in these categories and are reported in the government-wide financial statement of net position or in the governmental funds balance sheet.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Deferred Outflows/Inflows of Resources - continued

The City reports deferred inflows of resources for two (2) types of items which arise only under a modified accrual basis of accounting and qualify for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from revenues collected subsequent to sixty (60) days after year end and from long-term special assessment receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City also reports deferred outflows of resources which correspond to the City's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earning, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow of resources in the period to which they apply.

17. Federal Programs

Federal Programs are accounted for in the funds to which the program pertains. The City has not integrated its Single Audit Report and financial data as a part of the financial statements. The Single Audit Report and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Deposits

As of June 30, 2015, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 517,018	\$ 457,895
COMPONENT UNIT		
Checking	63,318	63,318
FIDUCIARY FUNDS		
Checking	<u>26,386</u>	<u>26,386</u>
TOTAL REPORTING UNIT	<u><u>\$ 606,722</u></u>	<u><u>\$ 547,599</u></u>

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2015, the City accounts were federally insured for \$527,893 and the amount of \$19,706 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of June 30, 2015, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents captions on the basic financial statements are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>	<u>Moody's/ S&P Rating</u>
PRIMARY GOVERNMENT				
Uncategorized pooled investment funds				
U.S. Government Bonds	\$ 397,778	\$ 397,778	1,478 days	AAA/AA+
Money funds	<u>201,500</u>	<u>201,500</u>	N/A	N/A
	<u><u>\$ 599,278</u></u>	<u><u>\$ 599,278</u></u>		

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2015, the rating information on the City's investments is presented above.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Council approved policy.

The cash and cash equivalents referred to above have been reported in the cash and cash equivalents captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2015:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 884,796	\$ 63,318	\$ 26,386	\$ 974,500
Restricted cash	30,000	-	-	30,000
Investments	201,500	-	-	201,500
	<u>\$ 1,116,296</u>	<u>\$ 63,318</u>	<u>\$ 26,386</u>	<u>\$ 1,206,000</u>

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Water System Fund from:	
General Fund	<u>\$ 30,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 4,781
Major Street Fund	<u>35,448</u>
	<u>\$ 40,229</u>

The transfer to the nonmajor governmental funds from the General Fund was to finance operations and to set aside funds in accordance with USDA debt service requirements. The transfer to the nonmajor governmental funds from the Major Street Fund was to fund current year street projects.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

PRIMARY GOVERNMENT

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities				
Capital assets not being depreciated				
Land	\$ 124,200	\$ -	\$ -	\$ 124,200
Capital assets being depreciated				
Buildings	151,742	-	-	151,742
Furniture and equipment	151,755	-	-	151,755
Vehicles	445,545	23,766	(103,495)	365,816
Infrastructure	2,012,430	5,600	-	2,018,030
Total capital assets being depreciated	2,761,472	29,366	(103,495)	2,687,343
Less accumulated depreciation for:				
Buildings	(88,706)	(3,318)	-	(92,024)
Furniture and equipment	(96,531)	(10,044)	-	(106,575)
Vehicles	(442,023)	(3,522)	103,495	(342,050)
Infrastructure	(594,235)	(76,169)	-	(670,404)
Total accumulated depreciation	(1,221,495)	(93,053)	103,495	(1,211,053)
Net capital assets being depreciated	1,539,977	(63,687)	-0-	1,476,290
Capital assets, net	<u>\$ 1,664,177</u>	<u>\$ (63,687)</u>	<u>\$ -0-</u>	<u>\$ 1,600,490</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 8,504
Public works	83,719
Recreation and culture	830
Total depreciation expense	<u>\$ 93,053</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Business-type activities - Sewer system				
Capital assets not being depreciated				
Land	\$ 50,620	\$ -	\$ -	\$ 50,620
Construction in progress	4,125	-	-	4,125
Subtotal	54,745	-0-	-0-	54,745
Capital assets being depreciated				
Sewer system	2,745,108	-	-	2,745,108
Equipment	18,436	-	-	18,436
Total capital assets being depreciated	2,763,544	-0-	-0-	2,763,544
Less accumulated depreciation for:				
Sewer system	(2,138,989)	(22,133)	-	(2,161,122)
Equipment	(13,368)	(1,448)	-	(14,816)
Total accumulated depreciation	(2,152,357)	(23,581)	-0-	(2,175,938)
Net capital assets being depreciated	611,187	(23,581)	-0-	587,606
Capital assets, net	<u>\$ 665,932</u>	<u>\$ (23,581)</u>	<u>\$ -0-</u>	<u>\$ 642,351</u>
Business-type activities - Water system				
Capital assets not being depreciated				
Construction in progress	\$ 110,208	\$ 1,412,446	\$ -	\$ 1,522,654
Capital assets being depreciated				
Water system	2,478,191	-	-	2,478,191
Equipment	18,436	-	-	18,436
Total capital assets being depreciated	2,496,627	-0-	-0-	2,496,627
Less accumulated depreciation for:				
Water system	(1,259,383)	(53,113)	-	(1,312,496)
Equipment	(12,644)	(724)	-	(13,368)
Total accumulated depreciation	(1,272,027)	(53,837)	-0-	(1,325,864)
Net capital assets being depreciated	1,224,600	(53,837)	-0-	1,170,763
Capital assets, net	<u>\$ 1,334,808</u>	<u>\$ 1,358,609</u>	<u>\$ -0-</u>	<u>\$ 2,693,417</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE D: CAPITAL ASSETS - CONTINUED

COMPONENT UNIT

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Downtown Development Authority				
Capital assets not being depreciated				
Land	\$ 46,768	\$ -	\$ -	\$ 46,768
Capital assets being depreciated				
Infrastructure	142,126	-	-	142,126
Less accumulated depreciation for:				
Infrastructure	<u>(107,993)</u>	<u>(3,216)</u>	<u>-</u>	<u>(111,209)</u>
Net capital assets being depreciated	<u>34,133</u>	<u>(3,216)</u>	<u>-0-</u>	<u>30,917</u>
Capital assets, net	<u>\$ 80,901</u>	<u>\$ (3,216)</u>	<u>\$ -0-</u>	<u>\$ 77,685</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2015:

PRIMARY GOVERNMENT

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
Governmental activities					
2006 General Obligation Bonds	\$ 270,000	\$ -	\$ (30,000)	\$ 240,000	\$ 30,000
2013 Refunding Bonds	355,660	-	(56,810)	298,850	56,810
Compensated absences	<u>6,142</u>	<u>11,707</u>	<u>(10,034)</u>	<u>7,815</u>	<u>7,815</u>
Total governmental activities	631,802	11,707	(96,844)	546,665	94,625
Business-type activities					
Sewer System					
Compensated absences	2,822	5,378	(4,426)	3,774	3,774
Water System					
2013 Refunding Bonds	364,340	-	(58,190)	306,150	58,190
2014A Water Revenue Bond	-	699,000	(10,000)	689,000	10,000
2014B Water Revenue Bond	-	101,000	(1,000)	100,000	1,000
Compensated absences	<u>2,822</u>	<u>5,378</u>	<u>(4,426)</u>	<u>3,774</u>	<u>3,774</u>
Total Water System	<u>367,162</u>	<u>805,378</u>	<u>(73,616)</u>	<u>1,098,924</u>	<u>72,964</u>
Total business-type activities	<u>369,984</u>	<u>810,756</u>	<u>(78,042)</u>	<u>1,102,698</u>	<u>76,738</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,001,786</u>	<u>\$ 822,463</u>	<u>\$ (174,886)</u>	<u>\$ 1,649,363</u>	<u>\$ 171,363</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE E: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

General Obligation Bonds

\$405,000 Limited Tax General Obligation Development Bonds, dated May 1, 2006, due in annual installments ranging from \$30,000 to \$50,000 through September 1, 2020, with interest ranging from 4.50 to 4.60 percent, payable semi-annually. \$ 240,000

\$830,000 Limited Tax General Obligation Refunding Bonds, dated August 15, 2013, due in annual installments ranging from \$115,000 to \$125,000 through May 1, 2020, with interest of 1.97 percent, payable semi-annually. These bonds are repaid partially by governmental activities (\$298,850) and partially by business-type activities (\$306,150). 605,000

\$ 845,000

Water Revenue Bonds

\$699,000 Water Revenue Bonds, dated July 16, 2014, due in annual installments ranging from \$10,000 to \$28,000 through June 1, 2054, with interest rates of 2.75 percent, payable semi-annually. \$ 689,000

\$101,000 Water Revenue Bonds, dated July 16, 2014, due in annual installments ranging from \$1,000 to \$10,000 through June 1, 2054, with interest rates of 3.25 percent, payable semi-annually. 100,000

\$ 789,000

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Water Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 145,000	\$ 22,094	\$ 11,000	\$ 22,198
2017	155,000	18,366	11,000	21,890
2018	160,000	14,314	12,000	21,583
2019	165,000	10,150	12,000	21,248
2020	170,000	5,776	12,000	20,913
2021-2025	50,000	1,150	70,000	99,138
2026-2030	-	-	80,000	88,673
2031-2035	-	-	90,000	76,873
2036-2040	-	-	103,000	64,573
2041-2045	-	-	120,000	47,978
2046-2050	-	-	137,000	30,245
2051-2054	-	-	131,000	16,768
	<u>\$ 845,000</u>	<u>\$ 71,850</u>	<u>\$ 789,000</u>	<u>\$ 532,080</u>

Compensated absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been recorded in the government-wide financial statements, amounted to approximately \$15,363 at June 30, 2015. Of this amount, \$7,815 and \$7,548 is recorded as a liability within the governmental activities and business-type activities, respectively, in accordance with criteria disclosed in Note A.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior

On August 15, 2014, the City defeased the portion of the 1981 Water Revenue Bonds, which were due and payable April 1, 2014, through April 1, 2021, and the portion of the 2005 General Obligation Bonds, which were due and payable May 1, 2014, through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued General Obligation 2013 Refunding Bonds in the amount of \$830,000. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2015, bonds due and payable April 1, 2016 through April 1, 2021, for the 1981 Water Revenue Bonds in the amount of \$345,000 and bonds due and payable May 1, 2016, through May 1, 2020, for the 2005 General Obligation Bonds in the amount of \$305,000 are considered defeased.

NOTE F: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for auto, property, public officials errors and omissions, crime, employee benefits liability, and general liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE G: RETIREMENT PLAN

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing MERS website at www.mersofmich.com.

Summary of Significant Accounting Policies

For the purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: RETIREMENT PLAN - CONTINUED

Benefits Provided

Benefits provided include plans with a multiplier ranging of 1.70%.

Vesting period of 6 years.

Normal retirement age is 60 with early retirement at 50 with 25 years of service.

Final average compensation is calculated based a range of 3 to 5 years. Member contributions are 0% to 2%.

At the December 31, 2014, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>6</u>
	<u>18</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions are 16.67% based on annual payroll for open divisions. One (1) division that is closed to new employees has an annual employer contribution of \$14,040.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary increases: 4.5% in the long-term (1%, 2%, and 3% for calendar years 2014, 2015, and 2016, respectively)

Investment rate of return: 8.0%, net of investment expenses, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: RETIREMENT PLAN - CONTINUED

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.50%	5.02%
Global Fixed Income	20.00%	2.18%
Real Assets	12.50%	4.23%
Diversifying Strategies	10.00%	6.56%

Discount Rate

The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. 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.

Changes in Net Pension Liability

<u>Calculating the Net Pension Liability</u>			
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Position Liability (a)-(b)</u>
Balances at December 31, 2013	\$ 1,051,555	\$ 487,232	\$ 564,323
Changes for the Year			
Service Cost	17,231	-	17,231
Interest on Total Pension Liability	82,006	-	82,006
Changes in benefits	-	-	-0-
Difference between expected and actual experience	-	-	-0-
Changes in assumptions	-	-	-0-
Employer contributions	-	47,738	(47,738)
Employee contributions	-	4,611	(4,611)
Net investment income	-	30,460	(30,460)
Benefit payments, including employee refunds	(70,172)	(70,172)	-0-
Administrative expense	-	(1,114)	1,114
Other changes	2,563	-	2,563
Net changes	31,628	11,523	20,105
Balances as of December 31, 2014	<u>\$ 1,083,183</u>	<u>\$ 498,755</u>	<u>\$ 584,428</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: RETIREMENT PLAN - CONTINUED

Sensitivity of the Net Pension Liability to changes in the discount rate

The following presents the Net Pension Liability of the employer, calculated using the discount rates of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	\$ 696,249	\$ 584,428	\$ 489,008

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the employer recognized pension expenses of \$19,590. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earning on pension plan investments	6,209	-
Contributions subsequent to the measurement date	<u>24,777</u>	<u>-</u>
Total	<u>\$ 30,986</u>	<u>\$ -0-</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date \$24,777, which will impact the net pension liability in fiscal year 2016, rather than pension expense.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense</u>
2016	\$ 1,552
2017	1,552
2018	1,552
2019	1,553

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

The City maintains two (2) post-employment health care benefit plans, one for non-union employees and one for union employees. The required disclosures in the “Plan Description” and “Actuarial Methods and Assumptions” apply to both plans.

Plan Description

The City provides certain retiree medical benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. The following are the Governmental Accounting Standards Board (GASB) Statement No. 45 required disclosures and these disclosures have been implemented prospectively by the City. The City pays the full cost of coverage for these benefits for certain retirees and their beneficiaries. The retirees must contribute the balance of premiums not paid by the City in accordance with plan provisions.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plans do not issue separate stand-alone financial statements.

NON-UNION HEALTH CARE PLAN

During the year ended June 30, 2015, one (1) retiree was receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$7,526 were recognized for post-employment benefits.

Funding Policy

The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a “pay-as-you-go” basis). The current contributions being made are based on a calculated valuation. Administrative costs of the plan are paid for by the City.

Funding Progress

For the year ended June 30, 2015, the City has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of June 30, 2014. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

NON-UNION HEALTH CARE PLAN - CONTINUED

Funding Progress - continued

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 49,634
Interest on net OPEB obligation	6,985
Adjustment to annual required contribution	<u>(8,706)</u>
Annual OPEB cost	47,913
Amounts contributed:	
Payments of current requirements (gross of employee reimbursement)	<u>7,526</u>
Increase in net OPEB Obligation	40,387
OPEB obligation - Beginning of year	<u>174,622</u>
OPEB obligation - End of year	<u><u>\$ 215,009</u></u>

The current funding progress of the plan is as follows:

	<u>June 30, 2009</u>	<u>June 30, 2012</u>	<u>June 30, 2014</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL) (entry age)	590,766	667,116	563,075
Unfunded AAL (UAAL)	590,766	667,116	563,075
Funded ratio	0.0%	0.0%	0.0%
Annual covered payroll	\$ 86,699	\$ 123,194	\$ 94,007
UAAL as a percentage of covered payroll	681.4%	541.5%	599.0%

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	Year Ended June 30,		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Annual OPEB cost	\$ 51,697	\$ 40,751	\$ 47,913
Percentage contributed	15.5%	23.8%	15.7%
Net OPEB obligation	\$ 143,565	\$ 174,622	\$ 215,009

In the June 30, 2015, alternative measurement method of calculation, the projected unit credit service cost method was used. The actuarial assumptions include a 4.0 percent per year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed underlying rate was 1.5 percent and an initial premium of 7.4 percent with an ultimate rate of 6.5 percent over ten years.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

UNION HEALTH CARE PLAN

During the year ended June 30, 2015, one (1) retiree was receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$11,781 were recognized for post-employment benefits.

Funding Policy

The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a “pay-as-you-go” basis). The current contributions being made are based on a calculated valuation. Administrative costs of the plan are paid for by the City.

Funding Progress

For the year ended June 30, 2015, the City has determined an estimated cost of providing post-employment benefits through an alternative measurement method of calculation as of June 30, 2015. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

The City’s computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 127,364
Interest on net OPEB obligation	20,096
Adjustment to annual required contribution	<u>(25,047)</u>
Annual OPEB cost	122,413
Amounts contributed	
Payments of current requirements (gross of employee reimbursement)	<u>11,781</u>
Increase in net OPEB Obligation	110,632
OPEB obligation - Beginning of year	<u>502,400</u>
OPEB obligation - End of year	<u><u>\$ 613,032</u></u>

The current funding progress of the plan is as follows:

	<u>June 30, 2009</u>	<u>June 30, 2012</u>	<u>June 30, 2014</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL) (entry age)	783,764	1,088,222	870,944
Unfunded AAL (UAAL)	783,764	1,088,222	870,944
Funded ratio	0.0%	0.0%	0.0%
Annual covered payroll	\$ 105,349	\$ 117,467	\$ 73,912
UAAL as a percentage of covered payroll	744.0%	926.4%	1178.4%

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

UNION HEALTH CARE PLAN - CONTINUED

Funding Progress - continued

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	Year Ended June 30,		
	2013	2014	2015
Annual OPEB cost	\$ 132,983	\$ 113,044	\$ 122,413
Percentage contributed	5.9%	8.6%	9.6%
Net OPEB obligation	\$ 399,050	\$ 502,400	\$ 613,032

In the June 30, 2015, alternative measurement method of calculation, the projected unit credit service cost method was used. The actuarial assumptions include a 4.0 percent per year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed underlying rate was 1.5 percent and an initial premium of 7.4 percent with an ultimate rate of 6.5 percent over ten years.

NOTE I: BUILDING CODE FINANCIAL INFORMATION

The City has elected to report the financial activities of the building and code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2015:

Cumulative (deficit) at July 1, 2014	\$ (70,182)
REVENUES	
Building permits	2,393
EXPENDITURES	
Contracted services	<u>(8,200)</u>
Cumulative (deficit) at June 30, 2015	<u>\$ (75,989)</u>

NOTE J: CONTRACTUAL COMMITMENTS

The City has entered into contracts related to water main and meter projects that were not completed at June 30, 2015. The total contractual commitments outstanding at June 30, 2015, totaled \$31,314. Current net position and future revenue in the Water System Fund is expected to be sufficient to cover these commitments.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE K: RESTRICTED NET POSITION

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various restrictions in net position as of June 30, 2015:

Governmental activities	
Restricted	
Rubbish levy	\$ 4,781
Streets	23,435
Mosquito control	<u>4,815</u>
	<u>\$ 33,031</u>
Business-type activities	
Restricted	
Debt service	<u>\$ 30,000</u>

NOTE L: RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for governmental activities and business-type activities due to a change in accounting principles.

	<u>Governmental Activities</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Business-type Activities</u>
Beginning net position	\$ 1,193,582	\$ 799,144	\$ 1,034,946	\$ 1,834,090
Deferred outflows of contributions	9,048	6,786	6,786	13,572
Net pension liability	<u>(225,729)</u>	<u>(169,297)</u>	<u>(169,297)</u>	<u>(338,594)</u>
Restated beginning net position	<u>\$ 976,901</u>	<u>\$ 636,633</u>	<u>\$ 872,435</u>	<u>\$ 1,509,068</u>

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the City's highest level of decision-making authority is the City Council. The formal action that is required to be taken to establish a fund balance commitment is a council resolution.

For assigned fund balance, the City Council is authorized to assign amounts to a specific purpose. Currently, assigned fund balance is determined through the budget and any residual amounts of fund balance in governmental funds other than the General Fund.

For the classification of fund balances, the City considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the City considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

	General Fund	Major Street	Nonmajor Governmental Funds	Total
Fund balances				
Nonspendable				
Prepays	\$ 2,639	\$ 962	\$ 963	\$ 4,564
Restricted				
Rubbish levy	4,781	-	-	4,781
Highways	-	17,688	3,822	21,510
Mosquito control	-	-	4,815	4,815
Committed				
Equipment replacement	-	-	7,834	7,834
Unassigned	337,985	-	-	337,985
TOTAL FUND BALANCES	\$ 345,405	\$ 18,650	\$ 17,434	\$ 381,489

NOTE N: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the year. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, was implemented during the year as it is required to be applied simultaneously with the provisions of GASB Statement No. 68. The statement addresses and issue regarding the application of the transition provisions of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is currently evaluating the impact this standard will have on the financial statements when adopted for the 2015-2016 fiscal year.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2015-2016 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 383,399	\$ 382,145	\$ 383,147	\$ 1,002
Fees in lieu of taxes	19,000	20,700	17,941	(2,759)
Penalties and interest	6,750	8,500	11,263	2,763
Administration fees	13,500	13,102	13,101	(1)
Total taxes	422,649	424,447	425,452	1,005
Licenses and permits				
Cable television license	18,600	19,500	21,116	1,616
City licenses and permits	2,700	2,925	4,279	1,354
Total licenses and permits	21,300	22,425	25,395	2,970
Intergovernmental				
Local	-	-	41,825	41,825
State - sales tax	173,602	173,559	172,806	(753)
Federal	11,150	-	-	-0-
Total Intergovernmental	184,752	173,559	214,631	41,072
Charges for services				
Solid waste	71,930	-	-	-0-
Administration charges	25,000	25,000	23,098	(1,902)
Other	4,300	3,950	4,979	1,029
Total charges for services	101,230	28,950	28,077	(873)
Fines and forfeits				
Parking	5,000	4,000	3,612	(388)
Interest and rents				
Interest	1,500	1,466	291	(1,175)
Rents	63,000	66,000	72,688	6,688
Total interest and rents	64,500	67,466	72,979	5,513
Other	150	14,599	14,600	1
TOTAL REVENUES	799,581	735,446	784,746	49,300

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2015

EXPENDITURES	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Current				
General government				
Legislative	\$ 18,440	\$ 16,723	\$ 13,870	\$ 2,853
City manager	21,596	11,721	11,056	665
Elections	2,337	4,066	3,978	88
Assessor	9,128	8,828	8,848	(20)
Clerk	48,778	48,524	46,323	2,201
Board of review	801	517	474	43
Treasurer	46,668	37,238	35,989	1,249
Other	11,229	27,730	26,489	1,241
Total general government	158,977	155,347	147,027	8,320
Public safety				
Police services	328,040	328,705	327,605	1,100
Fire services	54,425	54,425	54,425	-0-
Building and code enforcement	8,370	8,425	8,200	225
Total public safety	390,835	391,555	390,230	1,325
Public works				
Department of public works	58,468	57,071	50,399	6,672
Street lighting	33,000	31,000	28,730	2,270
Sanitation	70,850	-	-	-0-
Total public works	162,318	88,071	79,129	8,942
Community and economic development	3,886	2,137	605	1,532
Recreation and culture				
Parks and recreation	18,736	13,336	12,479	857
Library	3,700	3,400	2,834	566
Total recreation and culture	22,436	16,736	15,313	1,423
Debt service	64,705	64,067	105,624	(41,557)
Capital outlay	11,150	6,238	6,238	-0-
TOTAL EXPENDITURES	814,307	724,151	744,166	(20,015)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(14,726)	11,295	40,580	29,285

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING (USES)				
Transfers out	<u>\$ -</u>	<u>\$ (12,781)</u>	<u>\$ (34,781)</u>	<u>\$ (22,000)</u>
NET CHANGE IN FUND BALANCE	(14,726)	(1,486)	5,799	7,285
Fund balance, beginning of year	<u>339,606</u>	<u>339,606</u>	<u>339,606</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 324,880</u>	<u>\$ 338,120</u>	<u>\$ 345,405</u>	<u>\$ 7,285</u>

City of Montrose

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 252,284	\$ 128,327	\$ 125,701	\$ (2,626)
Interest	-	26	13	(13)
TOTAL REVENUES	252,284	128,353	125,714	(2,639)
EXPENDITURES				
Current				
Public works	274,867	145,844	136,169	9,675
EXCESS OF REVENUES (UNDER) EXPENDITURES	(22,583)	(17,491)	(10,455)	7,036
OTHER FINANCING (USES)				
Transfers out	(20,341)	(26,136)	(35,448)	(9,312)
NET CHANGE IN FUND BALANCE	(42,924)	(43,627)	(45,903)	(2,276)
Fund balance, beginning of year	64,553	64,553	64,553	-0-
Fund balance, end of year	\$ 21,629	\$ 20,926	\$ 18,650	\$ (2,276)

City of Montrose

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Year Ended December 31, 2014

(Ultimately ten fiscal years will be displayed)

	<u>2014</u>
Total Pension Liability	
Service cost	\$ 17,231
Interest	82,006
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including employee refunds	(70,172)
Other	<u>2,563</u>
Net Change in Total Pension Liability	31,628
Total Pension Liability, beginning	<u>1,051,555</u>
Total Pension Liability, ending	<u><u>\$ 1,083,183</u></u>
Plan Fiduciary Net Position	
Contributions-employer	\$ 47,738
Contributions-employee	4,611
Net Investment income	30,460
Benefit payments including employee refunds	(70,172)
Administrative expense	<u>(1,114)</u>
Net Change in Plan Fiduciary Net Position	11,523
Plan Fiduciary Net Position, beginning	<u>487,232</u>
Plan Fiduciary Net Position, ending	<u><u>\$ 498,755</u></u>
Employer Net Pension Liability	<u><u>\$ 584,428</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	46%
Covered employee payroll	\$ 228,526
Employer's Net Pension Liability as a percentage of covered employee payroll	255.7%

City of Montrose
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 Year Ended June 20, 2015
 (Ultimately ten fiscal years will be displayed)

	2015
Actuarial determined contributions	\$ 51,452
Contributions in relation to the actuarially determined contribution	51,452
Contribution deficiency (excess)	\$ -0-
Covered employee payroll	\$ 238,469
Contributions as a percentage of covered employee payroll	21.6%

City of Montrose

Other Post-Employment Benefits

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

SCHEDULE OF FUNDING PROGRESS - UNION

<u>Valuation Date</u>	<u>Actual Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) (Entry Age)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2014	\$ -	\$ 870,944	\$ 870,944	0.00%	\$ 73,912	1178.35%
6/30/2012	-	1,088,222	1,088,222	0.00%	117,467	926.41%
6/30/2009	-	783,764	783,764	0.00%	105,349	743.97%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - UNION

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 122,413	9.6%	\$ 613,032
2014	113,044	8.6%	502,400
2013	132,983	5.9%	399,050

SCHEDULE OF FUNDING PROGRESS - NON-UNION

<u>Valuation Date</u>	<u>Actual Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) (Entry Age)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2014	\$ -	\$ 563,075	\$ 563,075	0.00%	\$ 94,007	598.97%
6/30/2012	-	667,116	667,116	0.00%	123,194	541.52%
6/30/2009	-	590,766	590,766	0.00%	86,699	681.40%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - NON-UNION

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 47,913	15.7%	\$ 215,009
2014	40,751	23.8%	174,622
2013	51,697	15.5%	143,565

City of Montrose

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In required supplementary information to the financial statements, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended June 30, 2015, the City incurred expenditures in the noted activities in the General Fund and one (1) nonmajor governmental fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
General government			
Assessor	\$ 8,828	\$ 8,848	\$ 20
Debt service	64,067	105,624	41,557
Transfers out	12,781	34,781	22,000
Nonmajor governmental funds			

OTHER SUPPLEMENTARY INFORMATION

City of Montrose
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2015

	Special Revenue		
	Local Street	Mosquito Control	Garbage and Rubbish Collection
ASSETS			
Cash and cash equivalents	\$ -	\$ 8,315	\$ -
Restricted cash	-	-	-
Special assessments receivable	17,002	-	-
Due from other governmental units	5,576	-	-
Prepays	963	-	-
TOTAL ASSETS	\$ 23,541	\$ 8,315	\$ -0-
LIABILITIES			
Accounts payable	\$ 455	\$ 3,500	\$ -
Accrued liabilities	1,299	-	-
TOTAL LIABILITIES	1,754	3,500	-0-
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	17,002	-	-
FUND BALANCES			
Nonspendable	963	-	-
Restricted	3,822	4,815	-
Committed	-	-	-
TOTAL FUND BALANCES	4,785	4,815	-0-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 23,541	\$ 8,315	\$ -0-

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Equipment Replacement</u>	
\$ 7,834	\$ 16,149
-	-0-
-	17,002
-	5,576
-	963
<u>\$ 7,834</u>	<u>\$ 39,690</u>
\$ -	\$ 3,955
-	1,299
-0-	5,254
-	17,002
-	963
-	8,637
7,834	7,834
<u>7,834</u>	<u>17,434</u>
<u>\$ 7,834</u>	<u>\$ 39,690</u>

City of Montrose

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2015

	Special Revenue		
	Local Street	Mosquito Control	Garbage and Rubbish Collection
REVENUES			
Intergovernmental	\$ 33,271	\$ -	\$ -
Charges for services	-	-	71,931
Interest and rents	1	7	1
Other			
Special assessments	3,062	20,880	-
TOTAL REVENUES	36,334	20,887	71,932
EXPENDITURES			
Current			
Public works	72,570	-	76,713
Health and welfare	-	19,252	-
Debt service	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	72,570	19,252	76,713
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(36,236)	1,635	(4,781)
OTHER FINANCING SOURCES			
Transfers in	35,448	-	4,781
NET CHANGE IN FUND BALANCES	(788)	1,635	-0-
Fund balances, beginning of year	5,573	3,180	-
Fund balances, end of year	\$ 4,785	\$ 4,815	\$ -0-

<u>Capital Projects</u>	<u>Total</u>
<u>Equipment</u>	<u>Nonmajor</u>
<u>Replacement</u>	<u>Governmental</u>
	<u>Funds</u>
\$ -	\$ 33,271
-	71,931
1,594	1,603
-	<u>23,942</u>
1,594	130,747
-	149,283
-	19,252
-	-0-
<u>23,766</u>	<u>23,766</u>
<u>23,766</u>	<u>192,301</u>
(22,172)	(61,554)
-	<u>40,229</u>
(22,172)	(21,325)
<u>30,006</u>	<u>38,759</u>
<u>\$ 7,834</u>	<u>\$ 17,434</u>

City of Montrose

Fiduciary Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

	<u>Depot</u>	<u>OPEB</u>	<u>Delinquent Tax Collection</u>	<u>Total Agency Funds</u>
ASSETS				
Cash	<u>\$ 11,349</u>	<u>\$ 15,000</u>	<u>\$ 37</u>	<u>\$ 26,386</u>
LIABILITIES				
Due to other governmental units	\$ -	\$ -	\$ 37	\$ 37
Due to individuals and agencies	<u>11,349</u>	<u>15,000</u>	<u>-</u>	<u>26,349</u>
TOTAL LIABILITIES	<u>\$ 11,349</u>	<u>\$ 15,000</u>	<u>\$ 37</u>	<u>\$ 26,386</u>

City of Montrose

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2015

	<u>General</u>
ASSETS	
Cash	<u>\$ 63,318</u>
LIABILITIES	
Accounts payable	\$ 806
Accrued liabilities	<u>135</u>
TOTAL LIABILITIES	941
FUND BALANCE	
Unassigned	<u>62,377</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 63,318</u>

City of Montrose

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2015

Fund balance - governmental fund \$ 62,377

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 188,894	
Accumulated depreciation is	<u>(111,209)</u>	
Capital assets, net		<u>77,685</u>
Net position of governmental activities		<u><u>\$ 140,062</u></u>

City of Montrose

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2015

	<u>General</u>
REVENUES	
Taxes	\$ 55,117
Intergovernmental	5,985
Interest	<u>25</u>
TOTAL REVENUES	61,127
EXPENDITURES	
Current	
Community and economic development	<u>64,571</u>
NET CHANGE IN FUND BALANCE	(3,444)
Fund balance, beginning of year	<u>65,821</u>
Fund balance, end of year	<u><u>\$ 62,377</u></u>

City of Montrose

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES -
DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2015

Net change in fund balance - governmental fund \$ (3,444)

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

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (3,216)

Change in net position of governmental activities \$ (6,660)