

CITY OF MONTROSE

Genesee County, Michigan

FINANCIAL STATEMENTS

June 30, 2020

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& COMPANY

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INDEPENDENT AUDITORS' REPORT

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

Report on 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 as of and for the year ended June 30, 2020, 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.

Auditors' 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 contained 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 of 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 purposes 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.

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 as of June 30, 2020, 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.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 8), schedule of changes in the net pension liability and related ratios (pages 46 and 47), schedule of defined benefit plan pension contributions (page 48), schedule of changes in the net OPEB liability and related ratios (page 49), schedule of OPEB contributions (page 50), and schedule of and budgetary comparison information (pages 51 through 53) 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 of Montrose's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 November 25, 2020 on our consideration of the City of Montrose'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 of Montrose's internal control over financial reporting and compliance.

Bertchume & Co.

Saginaw, Michigan
November 25, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MONTROSE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

As management of the City of Montrose (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$5,618,853 for the fiscal year ended June 30, 2020, compared to \$5,459,999 for the fiscal year ended June 30, 2019.
- In the City's governmental activities, revenues generated were \$1,144,406 while expenses totaled \$1,074,198.
- In the City's business-type activities, revenues generated were \$1,056,793 while expenses totaled \$968,147.
- Total net position increased by \$158,854.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the City's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities with the difference between them reported as net position. The *statement of activities* presents all of the City's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the City of Montrose are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The City charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include sewer and water.

Component Unit – The City includes the Downtown Development Authority as a discretely presented component unit.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

CITY OF MONTROSE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

The City has three types of funds:

Governmental Funds – Many of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The City maintains five (5) individual governmental funds. Separate information is presented for the General Fund and Major Street Fund which are considered to be "major" funds. Data from the other three (3) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been presented for major governmental funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the City charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds. The City has no internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows. The City's enterprise funds are the Sewer Fund and Water Fund.

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

THE CITY OF MONTROSE AS A WHOLE:

The City's total combined net position for the fiscal year ended June 30, 2020 is \$5,618,853, consisting of \$2,270,225 in governmental activities and \$3,348,628 in business-type activities.

CITY OF MONTROSE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$1,452,413. Governmental activities unrestricted net position is \$365,757, while business-type activities unrestricted net position is \$1,086,656.

The following table shows comparisons of total assets, total deferred outflows, total liabilities, total deferred inflows and total net position in a condensed format at June 30, 2020 and 2019.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Assets:						
Current and other assets	\$ 820,078	\$ 1,009,673	\$ 1,493,270	\$ 1,491,739	\$ 2,313,348	\$ 2,501,412
Capital assets, net	<u>1,726,908</u>	<u>1,422,502</u>	<u>2,958,442</u>	<u>2,918,742</u>	<u>4,685,350</u>	<u>4,341,244</u>
Total assets	<u>2,546,986</u>	<u>2,432,175</u>	<u>4,451,712</u>	<u>4,410,481</u>	<u>6,998,698</u>	<u>6,842,656</u>
Deferred outflows	<u>23,295</u>	<u>33,917</u>	<u>24,694</u>	<u>38,458</u>	<u>47,989</u>	<u>72,375</u>
Liabilities:						
Current and other liabilities	127,430	16,841	116,912	70,842	244,342	87,683
Long-term liabilities	<u>164,252</u>	<u>234,028</u>	<u>1,010,807</u>	<u>1,104,081</u>	<u>1,175,059</u>	<u>1,338,109</u>
Total liabilities	<u>291,682</u>	<u>250,869</u>	<u>1,127,719</u>	<u>1,174,923</u>	<u>1,419,401</u>	<u>1,425,792</u>
Deferred inflows	<u>8,374</u>	<u>15,206</u>	<u>59</u>	<u>14,034</u>	<u>8,433</u>	<u>29,240</u>
Net position:						
Net investment in capital assets	1,726,908	1,360,772	2,227,442	2,112,472	3,954,350	3,473,244
Restricted	177,560	541,306	34,530	33,775	212,090	575,081
Unrestricted	<u>365,757</u>	<u>297,939</u>	<u>1,086,656</u>	<u>1,113,735</u>	<u>1,452,413</u>	<u>1,411,674</u>
Total net position	<u>\$ 2,270,225</u>	<u>\$ 2,200,017</u>	<u>\$ 3,348,628</u>	<u>\$ 3,259,982</u>	<u>\$ 5,618,853</u>	<u>\$ 5,459,999</u>

The City's combined total net position increased by \$158,854 during the current fiscal year. Governmental activities increased by \$70,208 and business-type activities increased by \$88,646.

Governmental Activities:

The total governmental revenue is reported at \$1,144,406, a decrease of \$91,163 from the prior fiscal year. Total expenses increased by \$211,349 from the prior fiscal year.

Business-type Activities:

The total business-type revenue is reported at \$1,056,793, a decrease of \$23,869 from the prior fiscal year. Total expenses increased by \$42,821 from the prior fiscal year.

CITY OF MONTROSE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

The following table shows the comparison of the change in net position in a condensed format for the fiscal years ended June 30:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Revenues:						
Program revenues						
Charges for services	\$ 171,653	\$ 140,446	\$ 1,034,072	\$ 1,055,106	\$ 1,205,725	\$ 1,195,552
Operating grants	179,674	204,736	-	-	179,674	204,736
Capital grants	36,045	231,891	-	-	36,045	231,891
General revenues						
Property taxes	520,816	408,682	-	-	520,816	408,682
Franchise fees	21,594	21,405	-	-	21,594	21,405
Unrestricted grants	190,668	206,966	-	-	190,668	206,966
Investment earnings	12,237	8,587	22,721	25,556	34,958	34,143
Other	11,719	12,856	-	-	11,719	12,856
Total revenues	<u>1,144,406</u>	<u>1,235,569</u>	<u>1,056,793</u>	<u>1,080,662</u>	<u>2,201,199</u>	<u>2,316,231</u>
Program Expenses:						
General government	179,761	168,395	-	-	179,761	168,395
Public safety	405,857	344,974	-	-	405,857	344,974
Public works	433,305	290,848	-	-	433,305	290,848
Health and welfare	24,450	22,413	-	-	24,450	22,413
Community and economic development	1,546	947	-	-	1,546	947
Recreation and culture	28,242	33,091	-	-	28,242	33,091
Interest on long-term debt	1,037	2,181	-	-	1,037	2,181
Sewer	-	-	306,589	289,099	306,589	289,099
Water	-	-	661,558	636,227	661,558	636,227
Total program expenses	<u>1,074,198</u>	<u>862,849</u>	<u>968,147</u>	<u>925,326</u>	<u>2,042,345</u>	<u>1,788,175</u>
Increase (decrease) in net position before other	<u>70,208</u>	<u>372,720</u>	<u>88,646</u>	<u>155,336</u>	<u>158,854</u>	<u>528,056</u>
Other items:						
Disposal of capital assets	-	(7,016)	-	-	-	(7,016)
Change in net position	70,208	365,704	88,646	155,336	158,854	521,040
Net position, beginning of year	<u>2,200,017</u>	<u>1,834,313</u>	<u>3,259,982</u>	<u>3,104,646</u>	<u>5,459,999</u>	<u>4,938,959</u>
Net position, end of year	<u>\$ 2,270,225</u>	<u>\$ 2,200,017</u>	<u>\$ 3,348,628</u>	<u>\$ 3,259,982</u>	<u>\$ 5,618,853</u>	<u>\$ 5,459,999</u>

CITY OF MONTROSE

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

THE CITY OF MONTROSE'S FUNDS:

Presentation of the City of Montrose's major funds and aggregate nonmajor funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and one of two governmental funds that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended June 30, 2020, General Fund financing sources exceeded its financing uses by \$53,929, increasing its ending fund balance to \$486,403. The City's second major governmental fund, the Major Street Fund decreased its ending fund balance by \$340,295.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected a net decrease in fund balance of \$25,246. During the year, the City made budget amendments which changed the projection to a net decrease in fund balance of \$45,131. The actual results for the year yielded an increase in fund balance of \$53,929.

Capital Assets and Debt Administration:

At June 30, 2020, the City of Montrose had \$4,685,350 invested in a range of capital assets including land, buildings and improvements, equipment and furniture, vehicles, water and sewer systems, streets, and other infrastructure, net of accumulated depreciation. At June 30, 2019, this total was \$4,341,244. Additional information about the City's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

At June 30, 2020, the City of Montrose's total long-term indebtedness (not including compensated absences, total OPEB liability, and net pension liability) was \$731,000, which was all backed by specific revenue sources. In addition, at June 30, 2020, the City's Downtown Development Authority had a loan balance outstanding of \$97,572 which was owed to the primary government. Additional information about the City's indebtedness is presented in Note 6 of the Notes to the Financial Statements.

Future Economic Factors:

The City of Montrose's economic future is currently dependent upon factors that are beyond the control of the City Council and City management. The City will continue to monitor its budget closely.

Contacting the City's Financial Management:

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact Montrose City Hall, 139 S. Saginaw, Montrose, MI 48457.

BASIC FINANCIAL STATEMENTS

CITY OF MONTROSE

STATEMENT OF NET POSITION

June 30, 2020

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 681,436	\$ 1,234,945	\$ 1,916,381	\$ 64,043
Receivables	98,942	210,679	309,621	-
Prepaid expenses	39,700	13,116	52,816	-
Restricted cash and cash equivalents	-	34,530	34,530	-
Capital assets not being depreciated	77,533	57,286	134,819	46,768
Capital assets being depreciated, net	<u>1,649,375</u>	<u>2,901,156</u>	<u>4,550,531</u>	<u>14,837</u>
Total assets	<u>2,546,986</u>	<u>4,451,712</u>	<u>6,998,698</u>	<u>125,648</u>
Deferred Outflows of Resources:				
Related to pension	19,006	24,694	43,700	-
Related to OPEB	<u>4,289</u>	<u>-</u>	<u>4,289</u>	<u>-</u>
Total deferred outflows of resources	<u>23,295</u>	<u>24,694</u>	<u>47,989</u>	<u>-</u>
Liabilities:				
Accounts payable and accrued expenses	127,430	116,912	244,342	1,179
Long-term liabilities:				
Due within one year				
Current portion of long-term debt	-	13,000	13,000	19,052
Due in more than one year				
Compensated absences	16,090	10,388	26,478	-
Long-term debt	-	718,000	718,000	78,520
Net pension liability	107,973	234,535	342,508	-
Total OPEB liability	<u>40,189</u>	<u>34,884</u>	<u>75,073</u>	<u>-</u>
Total liabilities	<u>291,682</u>	<u>1,127,719</u>	<u>1,419,401</u>	<u>98,751</u>
Deferred Inflows of Resources:				
Related to pension	65	59	124	-
Related to OPEB	<u>8,309</u>	<u>-</u>	<u>8,309</u>	<u>-</u>
Total deferred inflows of resources	<u>8,374</u>	<u>59</u>	<u>8,433</u>	<u>-</u>
Net position:				
Net investment in capital assets	1,726,908	2,227,442	3,954,350	61,605
Restricted for:				
Debt service	-	34,530	34,530	-
Streets	161,048	-	161,048	-
Garbage and rubbish collection	8,722	-	8,722	-
Mosquito control	7,790	-	7,790	-
Unrestricted (deficit)	<u>365,757</u>	<u>1,086,656</u>	<u>1,452,413</u>	<u>(34,708)</u>
Total net position	<u>\$ 2,270,225</u>	<u>\$ 3,348,628</u>	<u>\$ 5,618,853</u>	<u>\$ 26,897</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 179,761	\$ 16,379	\$ -	\$ -	\$ (163,382)
Public safety	405,857	4,508	-	-	(401,349)
Public works	433,305	129,723	179,674	23,319	(100,589)
Health and welfare	24,450	20,743	-	-	(3,707)
Community and economic development	1,546	300	-	12,726	11,480
Recreation and culture	28,242	-	-	-	(28,242)
Interest on long-term debt	1,037	-	-	-	(1,037)
Total governmental activities	<u>1,074,198</u>	<u>171,653</u>	<u>179,674</u>	<u>36,045</u>	<u>(686,826)</u>
<i>Business-type activities:</i>					
Sewer	306,589	368,374	-	-	61,785
Water	661,558	665,698	-	-	4,140
Total business-type activities	<u>968,147</u>	<u>1,034,072</u>	<u>-</u>	<u>-</u>	<u>65,925</u>
Total primary government	<u>\$ 2,042,345</u>	<u>\$ 1,205,725</u>	<u>\$ 179,674</u>	<u>\$ 36,045</u>	<u>\$ (620,901)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 32,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,301)</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended June 30, 2020

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business-</u>		<u>Component</u>
	<u>Activities</u>	<u>type</u>	<u>Total</u>	<u>Unit</u>
		<u>Activities</u>		
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (686,826)	\$ 65,925	\$ (620,901)	\$ (32,301)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	402,311	-	402,311	-
Property taxes, levied for public safety	99,060	-	99,060	-
Property taxes, captured by component unit	-	-	-	66,272
Payment in lieu of property taxes	19,445	-	19,445	-
Franchise fees	21,594	-	21,594	-
Grants and contributions not restricted to specific programs	190,668	-	190,668	-
Unrestricted investment earnings	12,237	22,721	34,958	8,911
Other	11,719	-	11,719	3,208
Total general revenues	<u>757,034</u>	<u>22,721</u>	<u>779,755</u>	<u>78,391</u>
Changes in net position	70,208	88,646	158,854	46,090
Net position (deficit), beginning of year	<u>2,200,017</u>	<u>3,259,982</u>	<u>5,459,999</u>	<u>(19,193)</u>
Net position, end of year	<u>\$ 2,270,225</u>	<u>\$ 3,348,628</u>	<u>\$ 5,618,853</u>	<u>\$ 26,897</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2020

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	\$ 417,044	\$ 187,010	\$ 77,382	\$ 681,436
Accounts receivable	23,416	-	-	23,416
Special assessments receivable	-	28,685	-	28,685
Due from other governments	20,942	19,001	6,898	46,841
Due from other funds	6,562	-	2,338	8,900
Prepaid expenditures	<u>38,352</u>	<u>674</u>	<u>674</u>	<u>39,700</u>
Total assets	<u>\$ 506,316</u>	<u>\$ 235,370</u>	<u>\$ 87,292</u>	<u>\$ 828,978</u>
Liabilities:				
Accounts payable	\$ 16,489	\$ 67,015	\$ 38,943	\$ 122,447
Accrued expenses	3,424	719	840	4,983
Due to other funds	<u>-</u>	<u>5,619</u>	<u>3,281</u>	<u>8,900</u>
Total liabilities	<u>19,913</u>	<u>73,353</u>	<u>43,064</u>	<u>136,330</u>
Deferred inflows of resources:				
Unavailable revenue - special assessments	<u>-</u>	<u>28,685</u>	<u>-</u>	<u>28,685</u>
Total liabilities and deferred inflows	<u>19,913</u>	<u>102,038</u>	<u>43,064</u>	<u>165,015</u>
Fund balances:				
Nonspendable:				
Prepaid expenditures	38,352	674	674	39,700
Restricted for:				
Streets	-	132,658	27,042	159,700
Garbage and rubbish collection	-	-	8,722	8,722
Mosquito control	-	-	7,790	7,790
Committed for:				
Equipment replacement	7,860	-	-	7,860
Unassigned	<u>440,191</u>	<u>-</u>	<u>-</u>	<u>440,191</u>
Total fund balances	<u>486,403</u>	<u>133,332</u>	<u>44,228</u>	<u>663,963</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 506,316</u>	<u>\$ 235,370</u>	<u>\$ 87,292</u>	<u>\$ 828,978</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

June 30, 2020

Fund balances of governmental funds	\$ 663,963
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
Capital assets not being depreciated	77,533
Capital assets being depreciated, net	1,649,375
Long-term receivables are not current financial resources and considered unavailable in the funds but are reported as revenue in the statement of activities.	
	28,685
Deferred outflows of resources, for the pension and OPEB plans, from the difference between projected and actual investment earnings, changes in assumptions as well as contributions made after the measurement date of the net pension and total OPEB liability are not reported in the governmental funds.	
	23,295
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences payable	(16,090)
Net pension liability	(107,973)
Total OPEB liability	(40,189)
Deferred inflows of resources, for the pension and OPEB plans, from the difference between actual and expected experience are not reported in the governmental funds.	
	<u>(8,374)</u>
Net position of governmental activities	<u><u>\$ 2,270,225</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2020

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$ 535,702	\$ -	\$ -	\$ 535,702
Special assessments	-	14,681	20,743	35,424
Licenses and permits	30,243	-	-	30,243
State grants	191,629	136,143	49,422	377,194
Contributions from other units	12,726	-	-	12,726
Charges for services	1,793	2,747	101,148	105,688
Fines and forfeits	3,547	-	-	3,547
Interest and rents	77,084	2,958	575	80,617
Other revenue	11,676	42	-	11,718
Total revenues	<u>864,400</u>	<u>156,571</u>	<u>171,888</u>	<u>1,192,859</u>
Expenditures:				
Current				
General government	159,386	-	-	159,386
Public safety	410,818	-	-	410,818
Public works	99,530	111,266	195,889	406,685
Health and welfare	-	-	24,450	24,450
Community and economic development	716	-	-	716
Recreation and culture	28,242	-	-	28,242
Capital outlay	48,809	360,600	-	409,409
Debt service				
Principal	61,750	-	-	61,750
Interest and fees	1,220	-	-	1,220
Total expenditures	<u>810,471</u>	<u>471,866</u>	<u>220,339</u>	<u>1,502,676</u>
Excess (deficiency) of revenues over expenditures	<u>53,929</u>	<u>(315,295)</u>	<u>(48,451)</u>	<u>(309,817)</u>
Other financing sources (uses):				
Transfers from other funds	-	-	25,000	25,000
Transfers to other funds	-	(25,000)	-	(25,000)
Net other financing sources (uses)	<u>-</u>	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Changes in fund balances	53,929	(340,295)	(23,451)	(309,817)
Fund balances, beginning of year	<u>432,474</u>	<u>473,627</u>	<u>67,679</u>	<u>973,780</u>
Fund balances, end of year	<u>\$ 486,403</u>	<u>\$ 133,332</u>	<u>\$ 44,228</u>	<u>\$ 663,963</u>

The accompanying notes are an integral part of these 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, 2020

Changes in fund balances of governmental funds	\$ (309,817)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Purchases of capital assets	404,288
Depreciation expense	(99,882)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	9,431
Payments of bond principal is an expenditure in the funds, but not in the statement of activities (where it reduces debt).	61,730
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable	203
Change in compensated absences payable	(3,652)
Change in net pension liability and related deferred outflows/inflows of resources	14,174
Change in total OPEB liability	<u>(6,267)</u>
Change in net position of governmental activities	<u>\$ 70,208</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

June 30, 2020

	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>
Assets:			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 761,169	\$ 473,776	\$ 1,234,945
Accounts receivable	38,575	74,532	113,107
Prepaid expenses	6,558	6,558	13,116
Advance receivable from component unit	9,526	9,526	19,052
Total current assets	<u>815,828</u>	<u>564,392</u>	<u>1,380,220</u>
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents			
USDA bond reserve	-	32,700	32,700
USDA RRI reserve	-	1,830	1,830
Capital assets not being depreciated	53,953	3,333	57,286
Capital assets being depreciated, net	491,720	2,409,436	2,901,156
Advance receivable from component unit	39,260	39,260	78,520
Total noncurrent assets	<u>584,933</u>	<u>2,486,559</u>	<u>3,071,492</u>
Total assets	<u>1,400,761</u>	<u>3,050,951</u>	<u>4,451,712</u>
Deferred outflows of resources:			
Related to pension	12,347	12,347	24,694
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	41,434	69,634	111,068
Accrued expenses	2,025	2,104	4,129
Accrued interest payable	-	1,715	1,715
Current portion of long-term debt	-	13,000	13,000
Total current liabilities	<u>43,459</u>	<u>86,453</u>	<u>129,912</u>
<i>Noncurrent liabilities:</i>			
Compensated absences payable	5,194	5,194	10,388
Long-term debt, net of current portion	-	718,000	718,000
Net pension liability	117,268	117,267	234,535
Total OPEB liability	17,442	17,442	34,884
Total noncurrent liabilities	<u>139,904</u>	<u>857,903</u>	<u>997,807</u>
Total liabilities	<u>183,363</u>	<u>944,356</u>	<u>1,127,719</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

PROPRIETARY FUNDS

STATEMENT OF NET POSITION, CONTINUED

June 30, 2020

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Deferred inflows of resources:			
Related to pension	30	29	59
Net position:			
Net investment in capital assets	545,673	1,681,769	2,227,442
Restricted for:			
Debt service	-	34,530	34,530
Unrestricted	684,042	402,614	1,086,656
Total net position	<u>\$ 1,229,715</u>	<u>\$ 2,118,913</u>	<u>\$ 3,348,628</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2020

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services			
Sales	\$ 359,132	\$ 633,595	\$ 992,727
Penalties and fees	8,807	16,251	25,058
Other	435	15,852	16,287
Total operating revenues	<u>368,374</u>	<u>665,698</u>	<u>1,034,072</u>
Operating expenses:			
Salaries and fringe benefits	81,696	112,715	194,411
Supplies	4,087	9,447	13,534
Contracted services	10,410	23,049	33,459
Sewage treatment charges	168,290	-	168,290
Water purchases	-	377,326	377,326
Other services and charges	19,173	22,867	42,040
Depreciation	22,933	94,227	117,160
Total operating expenses	<u>306,589</u>	<u>639,631</u>	<u>946,220</u>
Operating income (loss)	<u>61,785</u>	<u>26,067</u>	<u>87,852</u>
Non-operating revenues (expenses):			
Interest income	12,470	10,250	22,720
Interest expense	-	(21,927)	(21,927)
Net non-operating revenues (expenses)	<u>12,470</u>	<u>(11,677)</u>	<u>793</u>
Changes in fund net position	74,255	14,390	88,645
Net position, beginning of year	<u>1,155,460</u>	<u>2,104,523</u>	<u>3,259,983</u>
Net position, end of year	<u>\$ 1,229,715</u>	<u>\$ 2,118,913</u>	<u>\$ 3,348,628</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

	<u>Sewer</u> <u>Fund</u>	<u>Water</u> <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 368,754	\$ 663,457	\$ 1,032,211
Payments to and on behalf of employees	(90,338)	(118,601)	(208,939)
Payments for goods, services and other	(184,613)	(409,354)	(593,967)
Net cash provided (used) by operating activities	<u>93,803</u>	<u>135,502</u>	<u>229,305</u>
Cash flows from noncapital financing activities:			
Principal collected on loan to DDA	<u>9,413</u>	<u>9,413</u>	<u>18,826</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	(156,860)	(156,860)
Principal payments on long-term debt	-	(75,270)	(75,270)
Interest paid on long-term debt	-	(22,162)	(22,162)
Net cash used by capital related financing activities	<u>-</u>	<u>(254,292)</u>	<u>(254,292)</u>
Cash flows from investing activities:			
Interest received	<u>12,470</u>	<u>10,250</u>	<u>22,720</u>
Net increase (decrease) in cash and cash equivalents	115,686	(99,127)	16,559
Cash and cash equivalents, beginning of year	<u>645,483</u>	<u>607,433</u>	<u>1,252,916</u>
Cash and cash equivalents, end of year	<u>\$ 761,169</u>	<u>\$ 508,306</u>	<u>\$ 1,269,475</u>
Reconciliation of operating income to net cash provided			
(used) by operating activities:			
Operating income	\$ 61,785	\$ 26,067	\$ 87,852
Adjustments:			
Depreciation	22,933	94,227	117,160
Change in assets and liabilities:			
Accounts receivable	380	(2,241)	(1,861)
Prepaid expenses	(1,168)	(769)	(1,937)
Accounts payable	18,515	27,762	46,277
Accrued expenses	465	(436)	29
Compensated absences payable	1,092	1,092	2,184
Total OPEB liability	(3,658)	(3,658)	(7,316)
Net pension liability and related deferred outflows/inflows	<u>(6,541)</u>	<u>(6,542)</u>	<u>(13,083)</u>
Net cash provided (used) by operating activities	<u>\$ 93,803</u>	<u>\$ 135,502</u>	<u>\$ 229,305</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTROSE

FIDUCIARY FUND
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2020

	<u><i>Agency Funds</i></u>
Assets:	
Cash and cash equivalents	\$ <u>252</u>
Liabilities:	
Accounts payable	\$ <u>252</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used by the City of Montrose, (the “City”):

Reporting Entity:

The accompanying financial statements present the City and its component unit, entities for which the City is considered 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.

Discretely Presented Component Unit:

Downtown Development Authority – The Downtown Development Authority’s (DDA) members are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority. Separate financial statements are not prepared for the DDA.

Accounting and Reporting Principles:

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation:

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City’s sewer and water functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are not included in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting:

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City generally considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund Accounting:

The City accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources – separate funds allow the City to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the following funds as “major” governmental funds:

General Fund is the City’s primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.

Special Revenue Fund – Major Street Fund accounts for the expenditures associated with the maintenance and construction needs of the major street portion of the City’s street network.

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The City reports the following as “major” enterprise funds:

Enterprise Fund – Sewer Fund accounts for the operations of the City’s sewage collection system.

Enterprise Fund – Water Fund accounts for the operations of the City’s water distribution system.

Fiduciary funds include amounts held in fiduciary capacity for others. These amounts will not be used to operate the City’s own programs. Activities that are reported as fiduciary include:

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Agency Fund accounts for assets held by the City as an agent for individuals, organizations, other governmental units, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Specific Balances and Transactions:

Cash, Cash Equivalents and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value, if any. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents. The investment policy adopted by the City Council is in accordance with Public Act 20 of 1943, as amended. The City’s deposits have been made in accordance with statutory authority. The City currently has no investments.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items) are reported in the applicable governmental activities or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and land improvements	15-25 years
Equipment furnishings	3-15 years
Infrastructure	10-40 years
Sewer system	5-40 years
Vehicles	5-25 years
Water system	5-50 years

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight-line method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The General Fund and Water Fund are currently being used to liquidate long-term debt.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting and therefore is reported only in the governmental funds.

Net Position Flow Assumption – Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Other classifications of fund balance include: nonspendable fund balance, which are amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact; restricted fund balance, which are amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants,

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

contributions, specific fee mandates); and unassigned fund balance, which are amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. However, unassigned balances also include negative balances in other governmental funds.

Property Taxes – Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. The property taxes become a lien on July 1 and are due without penalty on or before July 31. The City's 2019 tax is levied and collectible on July 1, 2019 and is recognized as revenue in the year ended June 30, 2020, when the proceeds of the levy are budgeted and available for the financing of operations. The 2019 taxable valuation of the City totaled \$24,707,929 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 17.1140 mills for the City's operating purposes and 4.0000 mills for police. The DDA levied property taxes on an assessed property tax value of \$5,781,244 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.9956 mills.

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused vacation and sick days and to pay employees for those days upon termination or resignation per established policies. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Defined Benefit Plan Pension Costs – The City offers a defined benefit pension plan to its employees. For this plan, the City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose 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 pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, 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.

Other Postemployment Benefit Costs (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The City currently does not have an OPEB Trust Fund.

Proprietary Funds Operating Classification – Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the proprietary funds is charges to customers for sales and services. The proprietary funds also recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system and as nonoperating revenues rental income and investment income, if any. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not included in these classifications are reported as nonoperating.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates:

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

Interfund Activity:

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets for all governmental funds are adopted in compliance with Michigan Law. The budgets are prepared on the modified accrual basis, which is consistent with generally accepted accounting principles. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the function level for the general fund and special revenue funds. The City does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at the end of the fiscal year and amounts are re-appropriated for expenditures to be incurred in the next fiscal year.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<i>Final</i> <u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
General government			
Treasurer	\$ 44,200	\$ 44,248	\$ 48
Major Street Fund:			
Public works	55,750	111,266	55,516

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2019	\$	-
Current year building permit revenue		5,977
Related expenses:		
Direct costs		<u>8,144</u>
Cumulative surplus at June 30, 2020	\$	<u><u>-</u></u>

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a deposit policy for custodial credit risk. At year-end, the City and its component unit had \$2,116,691 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,858,890 was covered by federal depository insurance (FDIC) and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 4: BOND RESERVES

The City ordinances that authorized issuance of the Water Fund's 2014A and 2014B Water Revenue Bonds require that a Bond Reserve Account and a Repair, Replacement and Improvement Account (the "RRI" Account) be established and funded as follows:

Bond Reserve Account – The City shall deposit annually \$3,000 related to the Series 2014A Bond until \$30,000 is accumulated. For the Series 2014B Bond the City shall deposit annually \$450 until \$4,500 is accumulated. The total Bond Reserve Account requirement as of June 30, 2020 was \$20,700 which has been met.

Repair, Replacement, and Improvement Account – The City shall deposit annually \$305 related to the Series 2014A Bond until \$3,050 and then \$3,305 for the remainder of the bond. For the Series 2014B bond the City shall deposit annually \$450 once \$4,500 has been accumulated for the Bond Reserve Account. Moneys in the RRI Account shall be used and disbursed only for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the system, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the system, (c) acquiring and constructing extensions and improvements to the system and (d) when necessary, for the purpose of making payment of principal and interest on the Bond. The total RRI Account requirement as of June 30, 2020 was \$1,830 which has been met.

At June 30, 2020, the City's Water Fund had restricted cash and cash equivalents of \$34,530. The bond requirements were \$22,530.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2020</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 77,533	\$ -	\$ -	\$ 77,533
Capital assets being depreciated:				
Buildings and land improvements	102,942	43,786	-	146,728
Equipment and furniture	151,755	-	-	151,755
Infrastructure	2,172,948	360,502	-	2,533,450
Vehicles	332,582	-	-	332,582
Total capital assets being depreciated	<u>2,760,227</u>	<u>404,288</u>	<u>-</u>	<u>3,164,515</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,295)	(5,508)	-	(42,803)
Equipment and furniture	(140,968)	(5,654)	-	(146,622)
Infrastructure	(950,077)	(78,697)	-	(1,028,774)
Vehicles	(286,918)	(10,023)	-	(296,941)
Total accumulated depreciation	<u>(1,415,258)</u>	<u>(99,882)</u>	<u>-</u>	<u>(1,515,140)</u>
Capital assets being depreciated, net	<u>1,344,969</u>	<u>304,406</u>	<u>-</u>	<u>1,649,375</u>
Governmental activities, capital assets, net	<u>\$ 1,422,502</u>	<u>\$ 304,406</u>	<u>\$ -</u>	<u>\$ 1,726,908</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 57,286	\$ -	\$ -	\$ 57,286
Capital assets being depreciated:				
Buildings and improvements	40,000	16,476	-	56,476
Equipment and furniture	31,334	-	-	31,334
Sewer system	2,745,108	-	-	2,745,108
Water system	4,001,122	140,384	-	4,141,506
Total capital assets being depreciated	<u>6,817,564</u>	<u>156,860</u>	<u>-</u>	<u>6,974,424</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,600)	(2,012)	-	(3,612)
Equipment and furniture	(31,334)	-	-	(31,334)
Sewer system	(2,249,654)	(22,133)	-	(2,271,787)
Water system	(1,673,520)	(93,015)	-	(1,766,535)
Total accumulated depreciation	<u>(3,956,108)</u>	<u>(117,160)</u>	<u>-</u>	<u>(4,073,268)</u>
Capital assets being depreciated, net	<u>2,861,456</u>	<u>39,700</u>	<u>-</u>	<u>2,901,156</u>
Business-type activities, capital assets, net	<u>\$ 2,918,742</u>	<u>\$ 39,700</u>	<u>\$ -</u>	<u>\$ 2,958,442</u>

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 5: CAPITAL ASSETS, CONTINUED

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2020</u>
Component unit:				
Capital assets not being depreciated:				
Land	\$ 46,768	\$ -	\$ -	\$ 46,768
Capital assets being depreciated:				
Infrastructure	142,126	-	-	142,126
Less accumulated depreciation for:				
Infrastructure	(124,073)	(3,216)	-	(127,289)
Capital assets being depreciated, net	18,053	(3,216)	-	14,837
Component unit, capital assets, net	<u>\$ 64,821</u>	<u>\$ (3,216)</u>	<u>\$ -</u>	<u>\$ 61,605</u>

Depreciation expense was charged to programs as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
General government	\$ 9,657	\$ -	\$ -
Public works	89,395	-	-
Recreation and culture	830	-	-
Community and economic development	-	-	3,216
Sewer	-	22,933	-
Water	-	94,227	-
	<u>\$ 99,882</u>	<u>\$ 117,160</u>	<u>\$ 3,216</u>

NOTE 6: LONG-TERM DEBT

The City may issue bonds, loans, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and County contracts are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other liabilities include compensated absences.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 6: LONG-TERM DEBT, CONTINUED

The following is a summary of long-term liabilities for the year ended June 30, 2020:

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2020</u>	<u>Due Within One Year</u>
Governmental activities:					
2013 Limited Tax General Obligation Refunding Bonds, due in annual amounts ranging from \$59,280 to \$61,750 plus interest at 1.97% through 2020 (General Fund 49.4%)	\$ 61,730	\$ -	\$ (61,730)	\$ -	\$ -
Other Liabilities:					
Compensated absences	12,438	3,652	-	16,090	-
Total governmental activities - long-term liabilities	<u>\$ 74,168</u>	<u>\$ 3,652</u>	<u>\$ (61,730)</u>	<u>\$ 16,090</u>	<u>\$ -</u>
Business-type activities:					
<i>General Obligation Bonds:</i>					
2013 Limited Tax General Obligation Refunding Bonds, due in annual amounts ranging from \$60,720 to \$63,250 plus interest at 1.97% through 2020 (Water Fund 50.6%)	\$ 63,270	\$ -	\$ (63,270)	\$ -	\$ -
<i>Revenue Bonds:</i>					
2014A Water Revenue Bond, due in annual amounts ranging from \$12,000 to \$28,000 plus interest at 2.75% through 2054.	647,000	-	(11,000)	636,000	12,000
2014B Water Revenue Bond, due in annual amounts ranging from \$1,000 to \$10,000 plus interest at 3.25% through 2054	96,000	-	(1,000)	95,000	1,000
Other Liabilities:					
Compensated absences	8,204	2,184	-	10,388	-
Total business-type activities - long-term liabilities	<u>\$ 814,474</u>	<u>\$ 2,184</u>	<u>\$ (75,270)</u>	<u>\$ 741,388</u>	<u>\$ 13,000</u>
Component unit:					
<i>Advances Payable:</i>					
Advance from Primary Government, due in annual amounts of \$19,983 - 20,223 including interest at 1.2% through 2024.					
Water Fund	\$ 58,199	\$ -	\$ (9,413)	\$ 48,786	\$ 9,526
Sewer Fund	58,199	-	(9,413)	48,786	9,526
Total component units - long-term liabilities	<u>\$ 116,398</u>	<u>\$ -</u>	<u>\$ (18,826)</u>	<u>\$ 97,572</u>	<u>\$ 19,052</u>

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 6: LONG-TERM LIABILITIES, CONTINUED

Annual debt service requirements to maturity for all outstanding debt (excluding other liabilities) as of June 30, 2020 are as follows:

<i>Year Ended</i>	<i>Business-type Activities</i>			<i>Component Unit</i>			
	<i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2021	\$	13,000	\$ 20,578	\$ 33,578	\$ 19,052	\$ 1,171	\$ 20,223
2022		13,000	20,216	33,216	19,280	942	20,222
2023		14,000	19,852	33,852	19,511	711	20,222
2024		15,000	19,458	34,458	19,746	477	20,223
2025		15,000	19,034	34,034	19,983	-	19,983
2026-2030		80,000	88,674	168,674	-	-	-
2031-2035		90,000	76,874	166,874	-	-	-
2036-2040		104,000	63,572	167,572	-	-	-
2041-2045		120,000	47,982	167,982	-	-	-
2046-2050		137,000	30,250	167,250	-	-	-
2051-2054		130,000	9,564	139,564	-	-	-
	\$	<u>731,000</u>	<u>416,054</u>	<u>1,147,054</u>	<u>97,572</u>	<u>3,301</u>	<u>100,873</u>

NOTE 7: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2020 is as follows:

<i>Receivable Fund</i>	<i>Payable Fund</i>	<i>Amount</i>
Local Street Fund	Major Street Fund	\$ 2,338
General Fund	Major Street Fund	3,281
General Fund	Local Street Fund	3,281
		<u>\$ 8,900</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers reported in the fund statements were as follows:

<i>Interfund Transfers From</i>	<i>Interfund Transfers To</i>	<i>Amount</i>
Major Street Fund	Local Street Fund	<u>\$ 25,000</u>

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total Primary Government</i>	<i>Component Unit</i>
Receivables:				
Accounts receivable	\$ 23,416	\$ 113,107	\$ 136,523	\$ -
Special assessments receivable				
Current portion	7,644	-	7,644	-
Long-term portion	21,041	-	21,041	-
Intergovernmental	46,841	-	46,841	-
Advance to component unit:				
Current	-	19,052	19,052	-
Noncurrent	-	78,520	78,520	-
Total receivables	<u>\$ 98,942</u>	<u>\$ 210,679</u>	<u>\$ 309,621</u>	<u>\$ -</u>
Accounts payable and accrued expenses:				
Accounts payable	\$ 122,447	\$ 111,068	\$ 233,515	\$ 370
Accrued payroll and related liabilities	4,983	4,129	9,112	126
Accrued interest payable	-	1,715	1,715	683
Total accounts payable and accrued expenses	<u>\$ 127,430</u>	<u>\$ 116,912</u>	<u>\$ 244,342</u>	<u>\$ 1,179</u>

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for auto, property, public official 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 manages its workers' compensation insurance by participating in the Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS

Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan):

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, if any, 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 purpose, 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.

Plan Description – The City'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 Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided – The following are the benefits provided from the December 31, 2019 valuation. Division 02 - Police is closed and Division 11 - General is open.

	<u>Division 02 - Police (Closed)</u>	<u>Division 11 - General</u>
Benefit Multiplier:	1.70% Multiplier (no max)	1.70% Multiplier (no max)
Normal Retirement Age:	60	60
Vesting:	6 years	6 years
Early Retirement (Unreduced):	50/25	50/25
Early Retirement (Reduced):	55/15	55/15
Final Average Compensation:	3 years	5 years
Employee Contributions:	0.00%	8.00%
Act 88:	No	No

Employees covered by benefit terms – At the December 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	7
Inactive employees entitled to but not yet receiving benefits:	6
Active employees:	<u>4</u>
Total	<u><u>17</u></u>

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The City 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 City may establish contribution rates to be paid by its covered employees.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

City required contributions, for the current year, were \$4,394 monthly based on valuation payroll as of the December 31, 2017 valuation. The monthly amount by division was: Police - division 02 - \$2,495 (0% as percentage of payroll) and General - division 11 - \$1,899 (13.10% as percentage of payroll).

Net Pension Liability – The City’s net pension liability reported at June 30, 2020 was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 2.5%; Salary Increases: 3.00% in the long-term; Investment rate of return: 7.35%, net of investment and administrative expenses including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions and methods are adopted by the MERS Retirement Board, and are reviewed every five years in an Experience Study. The most recent study was completed in 2015 and changes to the assumptions and methods based on the 2015 Experience Study were first reflected in the December 31, 2015 valuations. The impact of these changes is being phased-in over a 5 year period.

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:

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Real Rate of Return	Long-Term Expected Real Rate of Return	Long-Term Expected Real Rate of Return
Global Equity	60.0%	7.75%	4.65%	2.50%	3.15%
Global Fixed Income	20.0%	3.75%	0.75%	2.50%	0.25%
Private Investments	20.0%	9.75%	1.95%	2.50%	1.45%
TOTAL	100.0%		7.35%		4.85%

Discount rate – The discount rate used to measure the total pension liability is 7.6%. The projection of cash flows used to determine the discount rate assumes that City and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for the City.

Projected cash flows – 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.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Changes in the net pension liability during the measurement year were as follows:

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/18	\$ 927,678	\$ 558,353	\$ 369,325
Service cost	15,182	-	15,182
Interest on total pension liability	71,829	-	71,829
Differences between expected and actual experience	(250)	-	(250)
Changes in assumptions	30,410	-	30,410
Employer contributions	-	55,299	(55,299)
Employee contributions	-	13,961	(13,961)
Net investment income	-	76,042	(76,042)
Benefit payments, including employee refunds	(74,823)	(74,823)	-
Administrative expenses	-	(1,314)	1,314
Net changes	42,348	69,165	(26,817)
Balances at 12/31/19	<u>\$ 970,026</u>	<u>\$ 627,518</u>	<u>\$ 342,508</u>

The net pension liability is recorded as follows:

Governmental activities	\$ 107,973
Business-type activities	<u>234,535</u>
	<u>\$ 342,508</u>

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.6%, as well as what the City’s net pension liability would be using a discount rate that is 1 percentage point lower (6.6%) or 1 percentage higher (8.6%) than the current rate.

	<i>1% Decrease Rate 6.60%</i>	<i>Current Rate 7.60%</i>	<i>1% Increase Rate 8.60%</i>
Net pension liability	\$ -	\$ 342,508	\$ -
Change in net pension liability as of 12/31/19	102,116	-	(86,658)
	<u>\$ 444,624</u>	<u>\$ 342,508</u>	<u>\$ 255,850</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense (Revenue) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2020, the City recognized pension expense of \$24,535. At June 30, 2020, the City reported deferred outflows and inflows from the following sources:

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ -	\$ 124
Changes in assumptions	15,199	-
Net difference between projected and actual earnings on pension plan investments	2,677	-
Contributions subsequent to the measurement date	25,824	-
	<u>\$ 43,700</u>	<u>\$ 124</u>

The deferred outflows of resources and deferred inflows of resources are recorded as follows:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Governmental activities	\$ 19,006	\$ 65
Business-type activities	24,694	59
	<u>\$ 43,700</u>	<u>\$ 124</u>

Amounts reported as deferred outflows 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 (\$25,824), which will impact the net pension liability in fiscal year 2021, rather than pension expense.

<i>Year Ending</i>		<i>Amount</i>
<u>June 30</u>		
2020	\$	14,264
2021		2,311
2022		7,511
2023		(6,330)

Pension Plan Fiduciary Net Position – Detailed information about the plan’s fiduciary net position is available in the separately issued financial report found at www.mersofmichigan.com. The plan’s fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – City of Montrose Retiree Health Care Plan (Plan) is a single employer plan established and administered by the City and can be amended by the City and Union contracts.

Eligibility Full-time Union employee; attained age 55 with 25 years of service

City benefits The City shall provide for each qualified retiree, continued hospitalization and medical insurance for a period of seven (7) years after retirement.

Baseline level of amounts or sums paid entirely by the Employer for eligible and participating retirees receiving hospitalization and medical insurance through the Employer's group:

Single	\$ 341.20
2 Person	818.90
Family	1,023.62

Family Continuation - \$253.47 per eligible dependent listed.

Retiree contributions All hospitalization and medical insurance monthly premium cost increases above, or more than, the benchmark baseline sums by above listed various categories of coverage shall be shared with the City paying seventy-five percent (75%) of the increase premium cost and the eligible, participating retiree paying the remaining twenty-five percent (25%) of the increase premium cost. Should monthly hospitalization and medical insurance premium costs be at, or below, or less than, the benchmark baseline level amounts or sums for the various listed categories listed above, the City shall pay the entire premium for the full-time eligible and participating retiree and eligible dependents for the retired employee until retiree reaches age sixty-five (65) or is eligible for Medicare.

Changes since prior valuation None

Summary of Plan Participants – As of June 30, 2019, Plan membership consisted of the following:

Active members	3
Inactive members	0
Retirees and beneficiaries	1
Total	<u>4</u>

Contributions – The plan was established and is being funded under the authority of the City and under agreements with the unions representing various classes of employees. The plan's funding policy is that the City will fund the plan on a pay-as-you-go basis. That is, benefit payments will be made from general operating funds. Active participants do not make contributions to pre-fund the plan. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Assumptions and Methods

The City's OPEB liability was measured as of June 30, 2020.

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2020 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	None; the plan is not prefunded
Salary increases	2.50% (for purpose of allocating liability)
Investment rate of return	None; the plan is not prefunded
20-year Aa Municipal bond rate	2.66% (S&P Municipal Bond 20-Year High Grade Rate Index)
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted
Improvement Scale	MP-2019

As this plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

Discount rate – The discount rate used to measure the total June 30, 2020 OPEB liability was 2.66%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For fiscal years subsequent to the valuation date, projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield and is used to determine the Total OPEB Liability. This discount rate is used to determine the Total OPEB Liability. The discount rate used as of June 30, 2019 was 3.0%.

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Changes in the Net OPEB Liability

	<i>Increase (Decrease)</i>		
	<i>Total OPEB Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net OPEB Liability</i>
Balance at 7/1/19	\$ 80,142	\$ -	\$ 80,142
Service cost	13,504	-	13,504
Interest	2,554	-	2,554
Experience (gains)/losses	(8,771)	-	(8,771)
Change in actuarial assumptions	4,634	-	4,634
Contributions/benefit paid from general operating funds	-	16,990	(16,990)
Benefit payments, including employee refunds	(16,990)	(16,990)	-
Net changes	(5,069)	-	(5,069)
Balances at 6/30/20	<u>\$ 75,073</u>	<u>\$ -</u>	<u>\$ 75,073</u>

The net OPEB liability is recorded as follows:

Governmental activities	\$ 40,189
Business-type activities	34,884
	<u>\$ 75,073</u>

Discount and Trend Rate Sensitivities - The following presents the net OPEB liability (NOL) of the City, calculated using trend and discount rates 1% higher and 1% lower than base assumptions:

	<u><i>1% Decrease</i></u>	<u><i>Current Rate</i></u>	<u><i>1% Increase</i></u>
Discount			
Total OPEB liability	\$ 82,910	\$ 75,073	\$ 68,034
Plan fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 82,910</u>	<u>\$ 75,073</u>	<u>\$ 68,034</u>
Trend			
Total OPEB liability	\$ 63,715	\$ 75,073	\$ 89,157
Plan fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 63,715</u>	<u>\$ 75,073</u>	<u>\$ 89,157</u>

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

OPEB Expense

Components of the City's OPEB expense for the fiscal year ended June 30, 2020 – Below are the components of the total OPEB expense:

	<u>2020</u>
Service cost	\$ 13,504
Interest on total OPEB liability	2,554
Experience gains/(losses)	(670)
Changes in assumptions	<u>345</u>
Total OPEB expense	<u>\$ 15,733</u>

OPEB plan fiduciary net position - The OPEB plan fiduciary net position as of June 30, 2020 is \$0.

Deferred inflows and outflows of resources related to OPEB plan

	<u><i>Deferred Outflows of Resources</i></u>	<u><i>Deferred Inflows of Resources</i></u>
Experience gains/(losses)	\$ -	\$ 8,309
Changes in assumptions	<u>4,289</u>	<u>-</u>
	<u>\$ 4,289</u>	<u>\$ 8,309</u>

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

<u><i>Year Ended June 30</i></u>	<u><i>Amount</i></u>
2021	\$ (325)
2022	(325)
2023	(325)
2024	(325)
2025	(325)
Thereafter	(2,395)

CITY OF MONTROSE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Reconciliation of the net OPEB liability

Net OPEB liability 6/30/19	\$	80,142
Total OPEB expense		15,733
Contributions		(16,990)
Change in deferred outflows of resources		4,289
Change in deferred inflows of resources		<u>(8,101)</u>
Net OPEB liability 6/30/20	\$	<u>75,073</u>

Total OPEB liability by participant status

Active participants	\$	56,864
Retirees and beneficiaries		<u>18,209</u>
Total	\$	<u>75,073</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTROSE

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability			
Service cost	\$ 15,182	\$ 14,882	\$ 13,083
Interest on total pension liability	71,829	74,943	82,131
Changes in benefit terms	-	-	(3,287)
Differences between expected and actual experience	(250)	(58,482)	(111,816)
Changes in assumptions	30,410	-	-
Benefit payments, including employee refunds	(74,823)	(66,011)	(75,718)
Other changes	-	-	-
Net change in total pension liability	42,348	(34,668)	(95,607)
Total pension liability - beginning	<u>927,678</u>	<u>962,346</u>	<u>1,057,953</u>
Total pension liability - ending	<u>\$ 970,026</u>	<u>\$ 927,678</u>	<u>\$ 962,346</u>
Plan fiduciary net position			
Contributions - employer	\$ 55,299	\$ 67,436	\$ 61,232
Contributions - employee	13,961	13,669	11,577
Net investment income (loss)	76,042	(23,237)	66,269
Benefit payments, including employee refunds	(74,823)	(66,011)	(75,718)
Administrative expenses	(1,311)	(1,117)	(1,049)
Net change in plan fiduciary net position	69,168	(9,260)	62,311
Total plan fiduciary net position - beginning	<u>558,350</u>	<u>567,610</u>	<u>505,299</u>
Total plan fiduciary net position - ending	<u>\$ 627,518</u>	<u>\$ 558,350</u>	<u>\$ 567,610</u>
City's net pension liability	\$ 342,508	\$ 369,328	\$ 394,736
Plan fiduciary net position as a percentage of the total pension liability	64.69%	60.19%	58.98%
Covered employee payroll	\$ 174,506	\$ 170,865	\$ 158,581
City's net pension liability as a percentage of covered payroll	196.27%	216.15%	248.92%

Note: GASB Statement No. 68 was implemented for the year ended June 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of data is displayed. Information presented in this schedule is as of the measurement date of December 31 of each year.

continued

CITY OF MONTROSE

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS, CONTINUED

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 11,937	\$ 11,300	\$ 17,231
Interest on total pension liability	94,379	86,892	82,006
Changes in benefit terms	(3,995)	-	-
Differences between expected and actual experience	(180,206)	48,832	-
Changes in assumptions	-	52,687	-
Benefit payments, including employee refunds	(75,855)	(71,201)	(70,172)
Other changes	-	-	2,563
Net change in total pension liability	(153,740)	128,510	31,628
Total pension liability - beginning	<u>1,211,693</u>	<u>1,083,183</u>	<u>1,051,555</u>
Total pension liability - ending	<u>\$ 1,057,953</u>	<u>\$ 1,211,693</u>	<u>\$ 1,083,183</u>
Plan fiduciary net position			
Contributions - employer	\$ 49,180	\$ 51,098	\$ 47,738
Contributions - employee	5,883	4,118	4,611
Net investment income (loss)	52,712	(7,274)	30,460
Benefit payments, including employee refunds	(75,855)	(71,201)	(70,172)
Administrative expenses	(1,042)	(1,075)	(1,114)
Net change in plan fiduciary net position	30,878	(24,334)	11,523
Total plan fiduciary net position - beginning	<u>474,421</u>	<u>498,755</u>	<u>487,232</u>
Total plan fiduciary net position - ending	<u>\$ 505,299</u>	<u>\$ 474,421</u>	<u>\$ 498,755</u>
City's net pension liability	\$ 552,654	\$ 737,272	\$ 584,428
Plan fiduciary net position as a percentage of the total pension liability	47.76%	39.15%	46.05%
Covered employee payroll	\$ 159,165	\$ 149,870	\$ 228,526
City's net pension liability as a percentage of covered payroll	347.22%	491.94%	255.74%

CITY OF MONTROSE

SCHEDULE OF CITY DEFINED BENEFIT PLAN PENSION CONTRIBUTIONS

Last Ten Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 51,798	\$ 59,232	\$ 74,986	\$ 48,859	\$ 51,114
Contributions in relation to the actuarially determined contribution	<u>51,798</u>	<u>59,232</u>	<u>74,986</u>	<u>48,859</u>	<u>51,114</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 174,506	\$ 170,865	\$ 158,581	\$ 159,165	\$ 149,870
Actuarially determined contribution as a percentage of covered-employee payroll	29.68%	34.67%	47.29%	30.70%	34.11%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 51,452	\$ 43,704	\$ 47,499	\$ 48,066	\$ 46,323
Contributions in relation to the actuarially determined contribution	<u>51,452</u>	<u>43,704</u>	<u>47,499</u>	<u>48,066</u>	<u>46,323</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 228,526	\$ 187,952	\$ 245,694	\$ 243,583	\$ 267,426
Actuarially determined contribution as a percentage of covered-employee payroll	22.51%	23.25%	19.33%	19.73%	17.32%

Notes to Schedule

Valuation date

Actuarially determined contribution rates are calculated as of December 31, 18 months prior to the beginning of the fiscal year in which contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open and closed
Remaining amortization period	11 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, effective with the December 31, 2019 valuation
Retirement age	50-60 years of age depending on years of credited service
Mortality	50% Male-50% Female blend RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables

Note: Information presented in this schedule is as of fiscal year end of each year.

CITY OF MONTROSE

SCHEDULE OF CHANGES IN THE CITY NET OPEB LIABILITY AND RELATED RATIOS

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 13,504	\$ 13,111	\$ 12,729
Interest	2,554	2,584	2,622
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(8,771)	(224)	-
Change of assumptions	4,634	-	-
Benefit payments, including employee refunds	<u>(16,990)</u>	<u>(16,679)</u>	<u>(17,328)</u>
Net change in total OPEB liability	(5,069)	(1,208)	(1,977)
Total OPEB liability - beginning	<u>80,142</u>	<u>81,350</u>	<u>83,327</u>
Total OPEB liability - ending	<u><u>\$ 75,073</u></u>	<u><u>\$ 80,142</u></u>	<u><u>\$ 81,350</u></u>
Plan fiduciary net position			
Contributions to OPEB trust	\$ -	\$ -	\$ -
Contributions/benefit payments made from general operating funds	16,990	16,679	17,328
Net investment income (loss)	-	-	-
Benefit payments, including employee refunds	(16,990)	(16,679)	(17,328)
Administrative expenses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	-	-	-
Total plan fiduciary net position - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Total plan fiduciary net position - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
City's net OPEB liability	\$ 75,073	\$ 80,142	\$ 81,350
Plan fiduciary net position as a percentage of the total OPEB liability	0%	0%	0%
Covered employee payroll	\$ 109,442	\$ 136,535	\$ 125,507
City's net OPEB liability as a percentage of covered payroll	68.6%	58.7%	64.8%

Note: GASB Statement No. 75 was implemented for the year ended June 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of data is displayed.

CITY OF MONTROSE

SCHEDULE OF CITY OPEB CONTRIBUTIONS

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 19,805	\$ 19,090	\$ 18,475
Employer contribution	<u>(16,990)</u>	<u>(16,679)</u>	<u>(17,328)</u>
Contribution (excess) deficiency	<u>\$ 2,815</u>	<u>\$ 2,411</u>	<u>\$ 1,147</u>
Covered-employee payroll	\$ 109,442	\$ 136,535	\$ 125,507
Actuarially determined contribution as a percentage of covered-employee payroll	18.1%	14.0%	14.7%
Employer contribution as a percentage of covered payroll	15.5%	12.2%	13.8%

Notes to Schedule

Amortization of unfunded liability based on 16-year, level percent of pay, amortization of unfunded liability; alternative funding scenarios could be considered.

Note: GASB Statement No. 75 was implemented for the year ended June 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of data is displayed.

CITY OF MONTROSE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Variances with</i>
	<u>Original</u>	<u>Final</u>		<i>Final Budget</i>
				<i>Favorable</i>
				<i>(Unfavorable)</i>
Revenues:				
Property taxes	\$ 500,800	\$ 500,800	\$ 535,702	\$ 34,902
Special assessments	2,000	2,000	-	(2,000)
Licenses and permits	29,400	29,400	30,243	843
State grants	192,500	192,500	191,629	(871)
Contributions from other units	38,000	38,000	12,726	(25,274)
Charges for services	2,500	2,500	1,793	(707)
Fines and forfeits	1,000	1,000	3,547	2,547
Interest and rents	58,600	58,600	77,084	18,484
Other revenue	29,450	29,450	11,676	(17,774)
Total revenues	<u>854,250</u>	<u>854,250</u>	<u>864,400</u>	<u>10,150</u>
Expenditures:				
Current				
General government				
Mayor and Council	23,842	23,842	17,170	6,672
Manager	33,503	33,503	21,709	11,794
Clerk	67,000	67,000	54,151	12,849
Audit	5,240	5,240	4,988	252
Board of review	1,555	1,555	1,373	182
Treasurer	39,415	44,200	44,248	(48)
Assessor	15,900	15,900	13,586	2,314
Elections	5,500	5,500	2,161	3,339
Total general government	<u>191,955</u>	<u>196,740</u>	<u>159,386</u>	<u>37,354</u>
Public safety				
Police	339,500	350,500	348,249	2,251
Fire	61,000	61,000	54,425	6,575
Building and code enforcement	9,900	9,900	8,144	1,756
Total public safety	<u>410,400</u>	<u>421,400</u>	<u>410,818</u>	<u>10,582</u>
Public works				
Department of public works	74,775	78,875	77,059	1,816
Street lights	26,000	26,000	22,471	3,529
Total public works	<u>100,775</u>	<u>104,875</u>	<u>99,530</u>	<u>5,345</u>
Community and economic development				
Planning and zoning	1,561	1,561	716	845
Recreation and culture				
Parks and recreation	28,535	28,535	26,077	2,458
Library	3,300	3,300	2,165	1,135
Total recreation and culture	<u>31,835</u>	<u>31,835</u>	<u>28,242</u>	<u>3,593</u>

continued

CITY OF MONTROSE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Variances with</i>
	<u>Original</u>	<u>Final</u>		<i>Final Budget</i>
				<i>Favorable</i>
				<i>(Unfavorable)</i>
Capital outlay	80,000	80,000	48,809	31,191
Debt service				
Principal	61,750	61,750	61,750	-
Interest and fees	1,220	1,220	1,220	-
Total debt service	62,970	62,970	62,970	-
Total expenditures	879,496	899,381	810,471	88,910
Change in fund balance	(25,246)	(45,131)	53,929	99,060
Fund balance, beginning of year	432,474	432,474	432,474	-
Fund balance, end of year	<u>\$ 407,228</u>	<u>\$ 387,343</u>	<u>\$ 486,403</u>	<u>\$ 99,060</u>

CITY OF MONTROSE

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Variances with</i>
	<u>Original</u>	<u>Final</u>		<i>Final Budget</i>
				<i>Favorable</i>
				<i>(Unfavorable)</i>
Revenues:				
Special assessments	\$ 6,500	\$ 6,500	\$ 14,681	\$ 8,181
State grants	392,200	392,200	136,143	(256,057)
Charges for services	-	-	2,747	2,747
Interest and rents	1,000	1,000	2,958	1,958
Other revenue	-	-	42	42
Total revenues	<u>399,700</u>	<u>399,700</u>	<u>156,571</u>	<u>(243,129)</u>
Expenditures:				
Current				
Public works	46,085	55,750	111,266	(55,516)
Capital outlay	<u>365,000</u>	<u>360,600</u>	<u>360,600</u>	<u>-</u>
Total expenditures	<u>411,085</u>	<u>416,350</u>	<u>471,866</u>	<u>(55,516)</u>
Excess (deficiency) of revenues over expenditures	<u>(11,385)</u>	<u>(16,650)</u>	<u>(315,295)</u>	<u>(298,645)</u>
Other financing sources (uses):				
Transfers to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Change in fund balance	(36,385)	(41,650)	(340,295)	(298,645)
Fund balance, beginning of year	<u>473,627</u>	<u>473,627</u>	<u>473,627</u>	<u>-</u>
Fund balance, end of year	<u>\$ 437,242</u>	<u>\$ 431,977</u>	<u>\$ 133,332</u>	<u>\$ (298,645)</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF MONTROSE

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

June 30, 2020

	<i>Special Revenue Funds</i>			<i>Total</i>
	<i>Local Street Fund</i>	<i>Garbage and Rubbish Collection Fund</i>	<i>Mosquito Control Fund</i>	
Assets:				
Cash and cash equivalents	\$ 58,833	\$ 8,722	\$ 9,827	\$ 77,382
Due from other governmental units	6,898	-	-	6,898
Due from other funds	2,338	-	-	2,338
Prepaid expenditures	674	-	-	674
Total assets	<u>\$ 68,743</u>	<u>\$ 8,722</u>	<u>\$ 9,827</u>	<u>\$ 87,292</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 36,906	\$ -	\$ 2,037	\$ 38,943
Accrued expenses	840	-	-	840
Due to other funds	3,281	-	-	3,281
Total liabilities	<u>41,027</u>	<u>-</u>	<u>2,037</u>	<u>43,064</u>
Fund balances:				
Nonspendable:				
Prepaid expenditures	674	-	-	674
Restricted for:				
Streets	27,042	-	-	27,042
Garbage and rubbish collection	-	8,722	-	8,722
Mosquito control	-	-	7,790	7,790
Total fund balances	<u>27,716</u>	<u>8,722</u>	<u>7,790</u>	<u>44,228</u>
Total liabilities and fund balances	<u>\$ 68,743</u>	<u>\$ 8,722</u>	<u>\$ 9,827</u>	<u>\$ 87,292</u>

CITY OF MONTROSE

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended June 30, 2020

	<i>Local Street Fund</i>	<i>Garbage and Rubbish Collection Fund</i>	<i>Mosquito Control Fund</i>	<i>Total</i>
Revenues:				
Special assessments	\$ -	\$ -	\$ 20,743	\$ 20,743
State grants	49,422	-	-	49,422
Charges for services	-	101,148	-	101,148
Interest and rents	523	5	47	575
Total revenues	<u>49,945</u>	<u>101,153</u>	<u>20,790</u>	<u>171,888</u>
Expenditures:				
Current				
Public works	94,808	101,081	-	195,889
Health and welfare	-	-	24,450	24,450
Total expenditures	<u>94,808</u>	<u>101,081</u>	<u>24,450</u>	<u>220,339</u>
Excess (deficiency) of revenues over expenditures	<u>(44,863)</u>	<u>72</u>	<u>(3,660)</u>	<u>(48,451)</u>
Other financing sources (uses):				
Transfers from other funds	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Changes in fund balances	(19,863)	72	(3,660)	(23,451)
Fund balances, beginning of year	<u>47,579</u>	<u>8,650</u>	<u>11,450</u>	<u>67,679</u>
Fund balances, end of year	<u>\$ 27,716</u>	<u>\$ 8,722</u>	<u>\$ 7,790</u>	<u>\$ 44,228</u>

CITY OF MONTROSE

GOVERNMENTAL ACTIVITIES and BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2020

2013 LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS

Issue dated August 15, 2013 in the amount of	\$	830,000
Less: Principal paid in prior years		(705,000)
Principal paid in current year		<u>(125,000)</u>
Balance payable at June 30, 2020	\$	<u><u>-</u></u>

CITY OF MONTROSE

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2020

2014A WATER REVENUE BOND

Issue dated July 16, 2014 in the amount of	\$ 699,000
Less: Principal paid in prior years	(52,000)
Principal paid in current year	<u>(11,000)</u>
Balance payable at June 30, 2020	<u>\$ 636,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i> <i>December 1</i>	<i>Principal due</i> <i>June 1</i>	<i>Interest due</i> <i>June 1</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2021	2.75%	\$ 8,745	\$ 12,000	\$ 8,745	\$ 29,490
2022	2.75%	8,580	12,000	8,580	29,160
2023	2.75%	8,415	12,000	8,415	28,830
2024	2.75%	8,250	13,000	8,250	29,500
2025	2.75%	8,071	13,000	8,071	29,142
2026	2.75%	7,893	13,000	7,893	28,786
2027	2.75%	7,714	14,000	7,714	29,428
2028	2.75%	7,521	14,000	7,521	29,042
2029	2.75%	7,329	14,000	7,329	28,658
2030	2.75%	7,136	15,000	7,136	29,272
2031	2.75%	6,930	15,000	6,930	28,860
2032	2.75%	6,724	16,000	6,724	29,448
2033	2.75%	6,504	16,000	6,504	29,008
2034	2.75%	6,284	16,000	6,284	28,568
2035	2.75%	6,064	17,000	6,064	29,128
2036	2.75%	5,830	17,000	5,830	28,660
2037	2.75%	5,596	18,000	5,596	29,192
2038	2.75%	5,349	18,000	5,349	28,698
2039	2.75%	5,101	19,000	5,101	29,202
2040	2.75%	4,840	19,000	4,840	28,680
2041	2.75%	4,579	20,000	4,579	29,158
2042	2.75%	4,304	20,000	4,304	28,608
2043	2.75%	4,029	21,000	4,029	29,058
2044	2.75%	3,740	22,000	3,740	29,480
2045	2.75%	3,438	22,000	3,438	28,876
2046	2.75%	3,135	23,000	3,135	29,270
2047	2.75%	2,819	23,000	2,819	28,638
2048	2.75%	2,503	24,000	2,503	29,006
2049	2.75%	2,173	25,000	2,173	29,346

continued

CITY OF MONTROSE

BUSINESS-TYPE ACTIVITIES
SCHEDULE OF INDEBTEDNESS, CONTINUED

June 30, 2020

2014A WATER REVENUE BOND

<i>Fiscal</i> <u><i>Year Ended</i></u>	<i>Interest</i> <u><i>Rate</i></u>	<i>Interest due</i> <u><i>December 1</i></u>	<i>Principal due</i> <u><i>June 1</i></u>	<i>Interest due</i> <u><i>June 1</i></u>	<i>Total</i> <i>Annual</i> <u><i>Requirement</i></u>
2050	2.75%	1,829	25,000	1,829	28,658
2051	2.75%	1,485	26,000	1,485	28,970
2052	2.75%	1,128	27,000	1,128	29,256
2053	2.75%	756	28,000	756	29,512
2054	2.75%	371	27,000	371	27,742
		<u>\$ 175,165</u>	<u>\$ 636,000</u>	<u>\$ 175,165</u>	<u>\$ 986,330</u>

CITY OF MONTROSE

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2020

2014B WATER REVENUE BOND

Issue dated July 16, 2014 in the amount of	\$ 101,000
Less: Principal paid in prior years	(5,000)
Principal paid in current year	<u>(1,000)</u>
Balance payable at June 30, 2020	<u>\$ 95,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i> <i>December 1</i>	<i>Principal due</i> <i>June 1</i>	<i>Interest due</i> <i>June 1</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2021	3.25%	\$ 1,544	\$ 1,000	\$ 1,544	\$ 4,088
2022	3.25%	1,528	1,000	1,528	4,056
2023	3.25%	1,511	2,000	1,511	5,022
2024	3.25%	1,479	2,000	1,479	4,958
2025	3.25%	1,446	2,000	1,446	4,892
2026	3.25%	1,414	2,000	1,414	4,828
2027	3.25%	1,381	2,000	1,381	4,762
2028	3.25%	1,349	2,000	1,349	4,698
2029	3.25%	1,316	2,000	1,316	4,632
2030	3.25%	1,284	2,000	1,284	4,568
2031	3.25%	1,251	2,000	1,251	4,502
2032	3.25%	1,219	2,000	1,219	4,438
2033	3.25%	1,186	2,000	1,186	4,372
2034	3.25%	1,154	2,000	1,154	4,308
2035	3.25%	1,121	2,000	1,121	4,242
2036	3.25%	1,089	2,000	1,089	4,178
2037	3.25%	1,056	2,000	1,056	4,112
2038	3.25%	1,024	3,000	1,024	5,048
2039	3.25%	975	3,000	975	4,950
2040	3.25%	926	3,000	926	4,852
2041	3.25%	878	3,000	878	4,756
2042	3.25%	829	3,000	829	4,658
2043	3.25%	780	3,000	780	4,560
2044	3.25%	731	3,000	731	4,462
2045	3.25%	683	3,000	683	4,366
2046	3.25%	634	3,000	634	4,268
2047	3.25%	585	3,000	585	4,170
2048	3.25%	536	3,000	536	4,072
2049	3.25%	488	4,000	488	4,976

continued

CITY OF MONTROSE

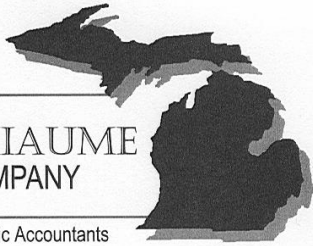
BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

June 30, 2020

2014B WATER REVENUE BOND

<i>Fiscal</i> <u>Year Ended</u>	<i>Interest</i> <u>Rate</u>	<i>Interest due</i> <u>December 1</u>	<i>Principal due</i> <u>June 1</u>	<i>Interest due</i> <u>June 1</u>	<i>Total</i> <i>Annual</i> <u>Requirement</u>
2050	3.25%	423	4,000	423	4,846
2051	3.25%	358	4,000	358	4,716
2052	3.25%	293	4,000	293	4,586
2053	3.25%	228	4,000	228	4,456
2054	3.25%	163	10,000	163	10,326
		<u>\$ 32,862</u>	<u>\$ 95,000</u>	<u>\$ 32,862</u>	<u>\$ 160,724</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Montrose's basic financial statements, and have issued our report thereon dated November 25, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given those limitations, we identified, and noted below, deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Other material weaknesses may exist that have not been identified.

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing and summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the City has placed reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

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

Cause: This condition was caused by the City's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the City to perform these tasks internally.

Effect: As a result of this condition, the City lacks internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The City has evaluated the cost versus benefit of establishing internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the City to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

Compliance and Other Matters

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

Purpose of this Report

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

Berthiaume & Co.

Saginaw, Michigan
November 25, 2020