

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------|--|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of Montague, Michigan | County Muskegon |
| Fiscal Year End 06/30/07 | Opinion Date 10/31/07 | Date Audit Report Submitted to State 11/06/07 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes or in the Management Letter (report of comments and recommendations)

YES
NO

Check each applicable box below (See instructions for further detail)

- 1 All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary
- 2 There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- 3 The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- 4 The local unit has adopted a budget for all required funds
- 5 A public hearing on the budget was held in accordance with State statute.
- 6 The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division
- 7 The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit
- 8 The local unit only holds deposits/investments that comply with statutory requirements
- 9 The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin)
- 10 There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD) If there is such activity that has not been communicated, please submit a separate report under separate cover
- 11 The local unit is free of repeated comments from previous years.
- 12 The audit opinion is UNQUALIFIED
- 13 The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP)
- 14 The board or council approves all invoices prior to payment as required by charter or statute
- 15 To our knowledge, bank reconciliations that were reviewed were performed timely

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects

| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) |
|--|--|--|
| Financial Statements | <input checked="" type="checkbox"/> | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | |
| Other (Describe) | <input checked="" type="checkbox"/> | SAS 112 Letter |
| Certified Public Accountant (Firm Name) Pridnia LaPres, PLLC | Telephone Number 231-739-9441 | |
| Street Address 3145 Henry Street, Ste. 200 | City Muskegon | State Zip MI 49441 |
| Authorizing CPA Signature  | Printed Name Gregory L. LaPres, CPA | License Number 1101013632 |

**City of Montague,
Michigan**

**Comprehensive Annual
Financial Report**
Year Ended June 30, 2007

City of Montague, Michigan

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City of Montague, Michigan

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City of Montague, Michigan
List of Elected and Appointed Officials

June 30, 2007

Elected Officials

| | |
|-----------------|--|
| Mayor | Henry E. Roesler, Jr. |
| Mayor Pro Tem | Calvin Cederquist |
| Council Members | Thomas Lohman Brandon Mahoney Darric Roesler June Schmelzer Charles Townsend |

Appointed Officials

| | |
|---------------------------|-------------------|
| City Manager | John French |
| City Clerk | Melinda O'Connell |
| Finance Officer/Treasurer | Susanne McGee |
| Police Chief | Robert Rought |
| Utility Clerk | Laurie Robillard |
| DPW Superintendent | Tom Kroll |
| Administrative Assistant | Matt Miller |

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montague, Michigan's management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 9 through 15 and pages 64 through 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montague, Michigan's basic financial statements. The combining funds statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Rudnia Katus, PLLC". The signature is written in a cursive, flowing style.

Muskegon, Michigan
October 31, 2007

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2007

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. This report consists of a series of financial statements for the City of Montague, Michigan as of June 30, 2007. The City of Montague, Michigan's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year the City of Montague, Michigan had total government-wide (governmental and business-type activities) assets of \$14,835,033 and total liabilities of \$1,350,242, leaving net assets of \$13,484,791. Of this amount, \$3,037,963 (unrestricted net assets) may be used to meet the ongoing obligations in all activities to citizens and creditors.

The largest portion of the net assets of the City is capital assets. Capital assets account for \$10,876,239, or 73%, of the total net assets, which primarily consists of water and sewer systems.

Business-type functions had operating income of \$143,991, comprised of Sewer loss of \$14,240, Water income of \$99,532, Launch Ramp income of \$17,323 and Campground income of \$41,376. The main reason for the increase in the combined enterprise funds was the capital contributed from DuPont and Miller Springs and no major projects initiated at the Launch Ramp or the Campground.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2007

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include the campground, launch ramp, and water and sewer services.

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, government fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

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

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Montague, Michigan has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, campground, launch ramp and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs of equipment used to the individual funds. Because this service predominantly benefits governmental rather than business-type functions, it has been included primarily within governmental activities in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for Water, Campground, Launch Ramp and Sewer Funds, of which Water and Sewer are major funds. The internal service fund is presented in its own column on the proprietary funds financial statements.

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2007

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City of Montague, Michigan's Net Assets

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2007 the City's net assets from governmental activities totaled \$5,330,589 and \$8,154,202 from business-type activities, a government-wide net asset total of \$13,484,791. As of June 30, 2006, the City's total net assets were \$13,207,852, comprised of \$5,367,972 from governmental activities and \$7,839,880 from business-type activities.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

| June 30, | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|--|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other assets | \$ 2,129,288 | \$ 2,649,613 | \$ 1,829,506 | \$ 1,735,267 | \$ 3,958,794 | \$ 4,384,880 |
| Capital assets | 3,386,961 | 3,112,471 | 7,489,278 | 7,457,997 | 10,876,239 | 10,570,468 |
| Total Assets | 5,516,249 | 5,762,084 | 9,318,784 | 9,193,264 | 14,835,033 | 14,955,348 |
| Long-term liabilities | 100,031 | 287,785 | 976,839 | 1,077,356 | 1,076,870 | 1,365,141 |
| Other liabilities | 85,629 | 106,327 | 187,743 | 276,028 | 273,372 | 382,355 |
| Total Liabilities | 185,660 | 394,112 | 1,164,582 | 1,353,384 | 1,350,242 | 1,747,496 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | 3,386,961 | 2,867,471 | 6,443,299 | 6,295,791 | 9,830,260 | 9,163,262 |
| Restricted | 176,547 | 176,776 | 440,021 | 451,221 | 616,568 | 627,997 |
| Unrestricted | 1,767,081 | 2,323,725 | 1,270,882 | 1,092,868 | 3,037,963 | 3,416,593 |
| Total Net Assets | \$ 5,330,589 | \$ 5,367,972 | \$ 8,154,202 | \$ 7,839,880 | \$13,484,791 | \$13,207,852 |

City of Montague, Michigan
Management's Discussion and Analysis
June 30, 2007

The City realized a 2.1% increase in net assets, increasing \$276,939 from fiscal year 2006 to fiscal year 2007. Capital grants contributed to the increase, including the township water project and Wellhead Protection grant of \$15,759. Also contributing to this increase was growth in property tax revenues, investment income and the sale of land for \$24,917.

Ongoing water projects, involving the looping of the distribution system in Montague and White River townships are financed entirely from an escrow fund with monies from DuPont and Miller Springs (Occidental Chemical). Construction of a new production well on Ochs Road in Montague Township, capable of producing over 700 gallons per minute, was scheduled for completion in late 2006, but due to various operational difficulties, will not go online until late 2007.

Dowling Street (between Meade Street and Cook Street) was removed and repaved in a fall 2006 project. In the spring of 2007, another significant infrastructure project included water main replacement on four blocks of Onsikamme Street; six blocks of street replacement and underground storm drainage improvements on Onsikamme Street and portions of Cook Street and Ravine Street.

The City's combined total assets decreased \$120,315, or approximately .8%, from a year ago.

City of Montague, Michigan's Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2007.

A comparison to fiscal year 2006 revenues has also been included.

City of Montague, Michigan
Management's Discussion and Analysis
June 30, 2007

| Year ended June 30, | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 174,752 | \$ 336,793 | \$ 1,031,492 | \$ 1,095,323 | \$ 1,206,244 | \$ 1,432,116 |
| Operating grants and contributions | 235,454 | 306,068 | 15,759 | - | 251,213 | 306,068 |
| Capital grants and contributions | - | - | 158,939 | 695,797 | 158,939 | 695,797 |
| General revenues | | | | | | |
| Property taxes | 1,336,010 | 1,341,038 | - | - | 1,336,010 | 1,341,038 |
| Grants and contributions not restricted to specific programs | 221,577 | 230,147 | - | - | 221,577 | 230,147 |
| Other | 189,629 | (593,512) | 52,447 | 47,651 | 242,076 | (545,861) |
| Total revenues | 2,157,422 | 1,620,534 | 1,258,637 | 1,838,771 | 3,416,059 | 3,459,305 |
| Expenses | | | | | | |
| General government | 610,190 | 566,098 | - | - | 610,190 | 566,098 |
| Public safety | 815,304 | 879,738 | - | - | 815,304 | 879,738 |
| Public works | 641,040 | 338,455 | - | - | 641,040 | 338,455 |
| Economic development | 250 | - | - | - | 250 | - |
| Culture and recreation | 115,288 | 121,287 | - | - | 115,288 | 121,287 |
| Interest on long-term debt | 12,733 | 15,490 | - | - | 12,733 | 15,490 |
| Sewer | - | - | 450,667 | 406,657 | 450,667 | 406,657 |
| Water | - | - | 405,846 | 524,215 | 405,846 | 524,215 |
| Boat launching ramp | - | - | 28,751 | 24,790 | 28,751 | 24,790 |
| Campground | - | - | 59,051 | 119,081 | 59,051 | 119,081 |
| Total expenses | 2,194,805 | 1,921,068 | 944,315 | 1,074,743 | 3,139,120 | 2,995,811 |
| Change in net assets | (37,383) | (300,534) | 314,322 | 764,028 | 276,939 | 463,494 |
| Net assets - July 1 | 5,367,972 | 5,668,506 | 7,839,880 | 7,075,852 | 13,207,852 | 12,744,358 |
| Net assets - June 30 | \$ 5,330,589 | \$ 5,367,972 | \$ 8,154,202 | \$ 7,839,880 | \$ 13,484,791 | \$ 13,207,852 |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City of Montague, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

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

City of Montague, Michigan

Management's Discussion and Analysis

June 30, 2007

At the end of the 2007 fiscal year, the governmental funds reported a combined fund balance of \$1,799,505. Of this amount, \$1,512,362 represents the unreserved fund balance, comprised of \$883,432 in the General Fund, \$205,878 in the Major Streets Fund, and net balance of \$423,052 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances (\$15,000), prepaid items (\$95,596) and perpetual care (\$176,547).

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. Fund balance decreased in the General Fund by \$94,947. Sales of property in the Industrial Park amounted to added revenues of \$24,917. Transfers out to other funds went up from \$322,083 in 2005-06 to \$397,318 in 2006-07. Major Streets fund balance decreased by \$80,698 due in part to preliminary engineering costs for the 2007-08 Old Channel Trail/Goodrich/Crepin Street Project.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets of the Sewer fund were increased by \$1,066. Net assets of the Water fund increased by \$247,982 primarily due to capital contributions of \$159,939 from DuPont and Miller Springs for the construction of the new well and water main expansion in Montague and White River Townships.

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The revenues budget was increased \$32,000 to reflect an increase in interest revenue. Other lines items that were amended upward included \$3,000 for the purchase of property by the Montague Fire District; \$6,900 for Planning Commission; \$3,945 for Administration; \$12,440 for Public Works; and \$15,218 for Police.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007 totaled \$10,876,239 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land and land improvements, water and sewer systems, buildings, machinery and equipment. Improvements to infrastructure totaling \$136,101 included work on Cook, Onsikamme, Ravine and Springer Streets. Water and sewer system improvements totaling \$252,723 included work on Cook and Onsikamme Streets, as well as on the distribution system outside the City in Montague and White River townships.

Debt Administration

As of June 30, 2007 the City had outstanding long-term liabilities of \$1,182,849 of which \$105,979 is due within one year.

City of Montague, Michigan Management's Discussion and Analysis June 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors and Next Year's Budget and Rates

The City of Montague, Michigan's 2007-08 budget calls for a City Operating Millage of 15.75 mills, the first time in four years the City was not able to slightly lower its operating millage.

Daily, weekly, monthly, and seasonal rates at the City's Trailway Campground were increased slightly, while the daily and season permits at the Municipal Boat Launch remained unchanged. The City anticipates a slight increase in total property tax collections as the City's taxable value continues to increase due in part to the uncapping of value for homes sold.

Other new and/or ongoing projects the City is planning on advancing during 2007-08 include the paving of the remaining gravel drives in the Oak Grove Cemetery; Phase Two of Old Channel Trail Infrastructure between Bowen Street and Cook Street including Goodrich Street and Crepin Street (subsidized by \$375,000 in 2010 Federal Aid funds loaned to the City by MDOT with a Jobs Today Grant incentive of \$93,750); expanded parking and better ingress and egress of the Municipal Boat Launch; continued improvements and repairs to City Hall; and a DDA-funded Causeway Improvement Project including the burying of overhead electrical and telephone wires, 17 antique streetlights, ornamental trees, new landscape islands and sidewalks.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of The City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-893-1155. Montague City Hall, located at 8778 Ferry Street, Montague, MI 49437, is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

| <i>June 30, 2007</i> | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and investments | \$ 1,922,346 | \$ 953,769 | \$ 2,876,115 |
| Receivables | | | |
| Accounts | 2,960 | 188,610 | 191,570 |
| Special assessments | 5,885 | - | 5,885 |
| Notes | - | - | - |
| Due from other governmental units | 109,654 | - | 109,654 |
| Internal balances | (8,653) | 8,653 | - |
| Inventories | - | 46,422 | 46,422 |
| Prepaid items | 97,096 | - | 97,096 |
| Restricted assets | - | 440,021 | 440,021 |
| Capital assets, net | 3,386,961 | 7,489,278 | 10,876,239 |
| Bond issue costs, net | - | 45,521 | 45,521 |
| Access rights, net | - | 146,510 | 146,510 |
| Total Assets | 5,516,249 | 9,318,784 | 14,835,033 |
| Liabilities and Net Assets | | | |
| Accounts payable and accrued liabilities | 79,488 | 27,019 | 106,507 |
| Due to other governmental units | 6,141 | - | 6,141 |
| Customer deposits | - | 2,205 | 2,205 |
| Deferred revenue | - | 52,540 | 52,540 |
| Bonds, capital leases and contracts, due within one year | - | 105,979 | 105,979 |
| Bonds, capital leases and contracts, less amounts due within one year | - | 940,000 | 940,000 |
| Compensated absences | 100,031 | 36,839 | 136,870 |
| Total Liabilities | 185,660 | 1,164,582 | 1,350,242 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 3,386,961 | 6,443,299 | 9,830,260 |
| Restricted for | | | |
| Debt service | - | 119,770 | 119,770 |
| Perpetual care | 176,547 | - | 176,547 |
| Capital projects | - | - | - |
| Replacement | - | 320,251 | 320,251 |
| Unrestricted | 1,767,081 | 1,270,882 | 3,037,963 |
| Total Net Assets | \$ 5,330,589 | \$ 8,154,202 | \$ 13,484,791 |

City of Montague, Michigan

Statement of Net Assets



| Component Units | |
|--------------------------------------|---------------------------------------|
| Downtown Development Authority | Tax Increment Finance Authority |
| \$ 680 | \$ 372,947 |
| - | - |
| - | - |
| - | 10,000 |
| - | - |
| - | - |
| - | - |
| - | 177,690 |
| - | 141,677 |
| - | - |
| - | - |
| 680 | 702,314 |
| - | 30,945 |
| - | - |
| - | - |
| - | - |
| - | - |
| - | - |
| - | 30,945 |
| - | 141,677 |
| - | - |
| - | - |
| - | 177,690 |
| - | - |
| 680 | 352,002 |
| \$ 680 | \$ 671,369 |

The accompanying notes are an integral part of this statement.

| <i>Year ended June 30, 2007</i> | Expenses | Program Revenues | | |
|--|---------------------|----------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government | \$ 610,190 | \$ 69,332 | \$ - | \$ - |
| Public safety | 815,304 | 86,456 | 1,385 | - |
| Public works | 641,040 | 18,964 | 234,069 | - |
| Community and economic development | 250 | - | - | - |
| Culture and recreation | 115,288 | - | - | - |
| Interest on long-term debt | 12,733 | - | - | - |
| Total Government Activities | 2,194,805 | 174,752 | 235,454 | - |
| Business-type activities | | | | |
| Sewer | 450,667 | 416,767 | - | - |
| Water | 405,846 | 468,224 | 15,759 | 158,939 |
| Boat launching ramp | 28,751 | 46,074 | - | - |
| Campground | 59,051 | 100,427 | - | - |
| Total Business-Type Activities | 944,315 | 1,031,492 | 15,759 | 158,939 |
| Total Primary Government | \$ 3,139,120 | \$ 1,206,244 | \$ 251,213 | \$ 158,939 |
| Component Units | | | | |
| Downtown Development Authority | \$ - | \$ - | \$ - | \$ - |
| Tax Increment Finance Authority | | | | |
| Public works | 82,439 | - | - | 177,690 |
| Depreciation | 2,796 | - | - | - |
| Total Tax Increment Finance Authority | 85,235 | - | - | 177,690 |
| Total Component Units | \$ 85,235 | \$ - | \$ - | \$ 177,690 |

General Revenues, Special Items and Transfers

Property taxes
Grants and contributions not restricted to specific programs
Investment income
Other
Special item - gain on sale or disposal of capital assets

Total General Revenues, Special Items and Transfers

Change in Net Assets

Net Assets, beginning of year,

Net Assets, end of year

City of Montague, Michigan

Statement of Activities

| Net (Expense) Revenue and Changes in Net Assets | | | | | |
|---|-------------------------|--------------------------|----------------------|--------------------------------|---------------------------------|
| Total | Primary Government | | Component Units | | |
| | Governmental Activities | Business-Type Activities | Total | Downtown Development Authority | Tax Increment Finance Authority |
| \$ 69,332 | \$ (540,858) | \$ - | \$ (540,858) | \$ - | \$ - |
| 87,841 | (727,463) | - | (727,463) | - | - |
| 253,033 | (388,007) | - | (388,007) | - | - |
| - | (250) | - | (250) | - | - |
| - | (115,288) | - | (115,288) | - | - |
| - | (12,733) | - | (12,733) | - | - |
| 410,206 | (1,784,599) | - | (1,784,599) | - | - |
| 416,767 | - | (33,900) | (33,900) | - | - |
| 642,922 | - | 237,076 | 237,076 | - | - |
| 46,074 | - | 17,323 | 17,323 | - | - |
| 100,427 | - | 41,376 | 41,376 | - | - |
| 1,206,190 | - | 261,875 | 261,875 | - | - |
| <u>\$ 1,616,396</u> | <u>(1,784,599)</u> | <u>261,875</u> | <u>(1,522,724)</u> | - | - |
| \$ - | - | - | - | - | - |
| 177,690 | - | - | - | - | 95,251 |
| - | - | - | - | - | (2,796) |
| 177,690 | - | - | - | - | 92,455 |
| <u>\$ 177,690</u> | - | - | - | - | 92,455 |
| | 1,336,010 | - | 1,336,010 | - | 231,435 |
| | 221,577 | - | 221,577 | - | - |
| | 123,882 | 52,447 | 176,329 | 25 | 13,897 |
| | 41,230 | - | 41,230 | - | - |
| | 24,517 | - | 24,517 | - | - |
| | 1,747,216 | 52,447 | 1,799,663 | 25 | 245,332 |
| | (37,383) | 314,322 | 276,939 | 25 | 337,787 |
| | 5,367,972 | 7,839,880 | 13,207,852 | 655 | 333,582 |
| | <u>\$ 5,330,589</u> | <u>\$ 8,154,202</u> | <u>\$ 13,484,791</u> | <u>\$ 680</u> | <u>\$ 671,369</u> |

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Governmental Funds

Balance Sheet

| <i>June 30, 2007</i> | General Fund | Major Street | Non-Major Governmental Funds | Total Governmental Funds |
|--|--------------------|-------------------|------------------------------------|--------------------------------|
| Assets | | | | |
| Cash and investments | \$ 854,047 | \$ 193,162 | \$ 628,980 | \$ 1,676,189 |
| Receivables | | | | |
| Accounts | 2,960 | - | - | 2,960 |
| Special assessments | 5,885 | - | - | 5,885 |
| Due from other governmental units | 73,352 | 26,341 | 9,961 | 109,654 |
| Prepaid items | 95,596 | - | 1,500 | 97,096 |
| Advances to other funds | 15,000 | - | - | 15,000 |
| Total Assets | \$1,046,840 | \$ 219,503 | \$ 640,441 | \$ 1,906,784 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 27,502 | \$ 12,227 | \$ 16,750 | \$ 56,479 |
| Accrued liabilities | 16,702 | 1,398 | 439 | 18,539 |
| Due to other governmental units | 6,141 | - | - | 6,141 |
| Due to other funds | - | - | 23,653 | 23,653 |
| Deferred revenue | 2,467 | - | - | 2,467 |
| Total Liabilities | 52,812 | 13,625 | 40,842 | 107,279 |
| Fund Balances | | | | |
| Reserved for prepaid items | 95,596 | - | - | 95,596 |
| Reserved for advances | 15,000 | - | - | 15,000 |
| Reserved for perpetual care | - | - | 176,547 | 176,547 |
| Unreserved | | | | |
| Designated | | | | |
| Special revenue funds | - | - | 82,772 | 82,772 |
| Undesignated | | | | |
| General fund | 883,432 | - | - | 883,432 |
| Special revenue funds | - | 205,878 | 247,827 | 453,705 |
| Capital project funds | - | - | 92,453 | 92,453 |
| Total Fund Balances | 994,028 | 205,878 | 599,599 | 1,799,505 |
| Total Liabilities and Fund Balances | \$1,046,840 | \$ 219,503 | \$ 640,441 | \$ 1,906,784 |

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Year ended June 30, 2007

| | | | |
|---|------------------|-----------|--------------------|
| Total Fund Balance - Governmental Funds | | | \$1,799,505 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. | | | |
| Cost of capital assets | \$ 3,965,070 | | |
| Accumulated depreciation | <u>(809,498)</u> | 3,155,572 | |
| Certain revenues that do not provide current financial resources are not reported in the governmental funds. | | | |
| | | | 2,467 |
| Internal service funds are used by management to charge the costs of equipment used to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | | | |
| | | | 473,076 |
| Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds. | | | |
| Compensated absences | | | <u>(100,031)</u> |
| Net Assets of Governmental Activities in the Statement of Net Assets | | | \$5,330,589 |

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

| <i>Year ended June 30, 2007</i> | General Fund | Major Street | Non-Major Governmental Funds | Total Governmental Funds |
|---|-------------------|-------------------|------------------------------------|--------------------------------|
| Revenues | | | | |
| Property taxes | \$1,336,010 | \$ - | \$ - | \$ 1,336,010 |
| Licenses and permits | 17,217 | - | 58,743 | 75,960 |
| Intergovernmental revenues | | | | |
| Federal | - | - | 2,809 | 2,809 |
| State | 221,577 | 160,444 | 70,816 | 452,837 |
| Local | 1,385 | - | - | 1,385 |
| Charges for services | 46,350 | 1,689 | 43,624 | 91,663 |
| Fines and forfeitures | 7,129 | - | - | 7,129 |
| Investment earnings | 87,182 | 5,970 | 30,730 | 123,882 |
| Other | 40,168 | 1,062 | - | 41,230 |
| Total Revenues | 1,757,018 | 169,165 | 206,722 | 2,132,905 |
| Expenditures | | | | |
| Current | | | | |
| General government | 525,949 | - | - | 525,949 |
| Public safety | 677,700 | - | 87,030 | 764,730 |
| Public works | 124,294 | 233,759 | 243,223 | 601,276 |
| Community and economic development | 250 | - | - | 250 |
| Culture and recreation | 108,137 | - | - | 108,137 |
| Other governmental functions | 27,610 | - | - | 27,610 |
| Debt service | | | | |
| Principal | - | - | 245,000 | 245,000 |
| Interest and fees | - | - | 13,800 | 13,800 |
| Capital outlay | 22,283 | 136,104 | 1,376 | 159,763 |
| Total Expenditures | 1,486,223 | 369,863 | 590,429 | 2,446,515 |
| Excess of revenues over (under) expenditures | 270,795 | (200,698) | (383,707) | (313,610) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 6,659 | 120,000 | 280,318 | 406,977 |
| Transfers out | (397,318) | - | (9,659) | (406,977) |
| Proceeds from sale of capital assets | 24,917 | - | - | 24,917 |
| Total Other Financing Sources (Uses) | (365,742) | 120,000 | 270,659 | 24,917 |
| Net change in fund balances | (94,947) | (80,698) | (113,048) | (288,693) |
| Fund Balance, at beginning of year | 1,088,975 | 286,576 | 712,647 | 2,088,198 |
| Fund Balance, at end of year | \$ 994,028 | \$ 205,878 | \$ 599,599 | \$ 1,799,505 |

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2007

| | | |
|--|----------------|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | | \$ (288,693) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives. | | |
| Depreciation expense | \$ (132,272) | |
| Capital outlay | <u>173,494</u> | 41,222 |
| Proceeds from the sale of capital assets are reported as revenues in the governmental funds; proceeds are netted against net book value in the Statement of Activities and a net resulting gain or loss is recorded. | | |
| | | (400) |
| Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | | |
| | | 245,000 |
| Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid. | | |
| | | 1,067 |
| Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds. | | |
| | | (22,246) |
| Internal service funds are used by management to charge the costs of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities. | | |
| | | (13,333) |
| Change in Net Assets of Governmental Activities | | \$ (37,383) |

The accompanying notes are an integral part of this statement.

| | <u>Enterprise</u> | |
|---|-------------------|--------------|
| <i>June 30, 2007</i> | Sewer | Water |
| Assets | | |
| Current Assets | | |
| Cash and investments | \$ 616,996 | \$ 157,099 |
| Accounts receivable | 86,180 | 102,430 |
| Due from other funds | - | 23,653 |
| Inventories | - | 46,422 |
| Total Current Assets | 703,176 | 329,604 |
| Non-Current Assets | | |
| Restricted assets | 338,065 | 98,869 |
| Capital assets, net | 3,724,431 | 3,411,561 |
| Access rights, net of amortization | 146,510 | - |
| Bond issue costs, net of accumulated amortization | 26,561 | 18,960 |
| Total Non-Current Assets | 4,235,567 | 3,529,390 |
| Total Assets | \$ 4,938,743 | \$ 3,858,994 |

City of Montague, Michigan

Proprietary Funds

Statement of Net Assets

| Funds | | |
|----------------------------------|-------------|-----------------------------|
| Non-Major Enterprise Funds | Total | Internal Service Fund |
| \$182,761 | \$ 956,856 | \$ 246,157 |
| - | 188,610 | - |
| - | 23,653 | - |
| - | 46,422 | - |
| 182,761 | 1,215,541 | 246,157 |
| - | 436,934 | - |
| 353,286 | 7,489,278 | 231,389 |
| - | 146,510 | - |
| - | 45,521 | - |
| 353,286 | 8,118,243 | 231,389 |
| \$536,047 | \$9,333,784 | \$ 477,546 |

This Statement Covers More Than One Page.

| | <u>Enterprise</u> | |
|--|-------------------|--------------|
| <i>June 30, 2007</i> | Sewer | Water |
| Current Liabilities | | |
| Accounts payable | \$ 5,950 | \$ 4,629 |
| Accrued expenses | 1,215 | 12,728 |
| Customer deposits | - | 2,205 |
| Deferred revenue | - | 50,890 |
| Bonds, capital leases and contracts, due within one year | 80,979 | 25,000 |
| Total Current Liabilities | 88,144 | 95,452 |
| Non-Current Liabilities | | |
| Advances to other funds | - | - |
| Bonds, capital leases and contracts, less amounts due within one year | 475,000 | 465,000 |
| Compensated absences | 13,556 | 23,283 |
| Total Non-Current Liabilities | 488,556 | 488,283 |
| Total Liabilities | 576,700 | 583,735 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 3,168,452 | 2,921,561 |
| Restricted for replacement | 267,215 | 53,036 |
| Restricted for debt service | 70,850 | 48,920 |
| Unrestricted | 855,526 | 251,742 |
| Total Net Assets | \$ 4,362,043 | \$ 3,275,259 |

City of Montague, Michigan

Proprietary Funds

Statement of Net Assets

| Funds | | |
|----------------------------------|--------------------|-----------------------------|
| Non-Major Enterprise Funds | Total | Internal Service Fund |
| \$ 2,442 | \$ 13,021 | \$ 846 |
| 55 | 13,998 | 3,624 |
| - | 2,205 | - |
| 1,650 | 52,540 | - |
| - | 105,979 | - |
| 4,147 | 187,743 | 4,470 |
| 15,000 | 15,000 | - |
| - | 940,000 | - |
| - | 36,839 | - |
| 15,000 | 991,839 | - |
| 19,147 | 1,179,582 | 4,470 |
| 353,286 | 6,443,299 | 231,389 |
| - | 320,251 | - |
| - | 119,770 | - |
| 163,614 | 1,270,882 | 241,687 |
| \$516,900 | \$8,154,202 | \$ 473,076 |

The accompanying notes are an integral part of this statement.

| | <u>Enterprise</u> | |
|--|---------------------|---------------------|
| <i>Year ended June 30, 2007</i> | Sewer | Water |
| Revenues | | |
| Charges for services | \$ 416,767 | \$ 468,224 |
| Operating grants | - | 15,759 |
| Total Operating Revenues | 416,767 | 483,983 |
| Operating Expenses | | |
| Administration | 94,851 | 106,139 |
| Operations | 197,585 | 179,373 |
| Depreciation and amortization | 138,571 | 98,939 |
| Total Operating Expenses | 431,007 | 384,451 |
| Operating Income (Loss) | (14,240) | 99,532 |
| Non-Operating Revenues (Expenses) | | |
| Investment income | 34,966 | 10,906 |
| Interest expense | (19,660) | (21,395) |
| Total Non-Operating Revenues (Expenses) | 15,306 | (10,489) |
| Income (Loss) before contributions | 1,066 | 89,043 |
| Capital Contributions | - | 158,939 |
| Change in Net Assets | 1,066 | 247,982 |
| Net Assets, beginning of year | 4,360,977 | 3,027,277 |
| Net Assets, end of year | \$ 4,362,043 | \$ 3,275,259 |

City of Montague, Michigan

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets

| Funds | | |
|----------------------------------|-------------|-----------------------------|
| Non-Major Enterprise Funds | Total | Internal Service Fund |
| \$146,501 | \$1,031,492 | \$ 157,234 |
| - | 15,759 | - |
| 146,501 | 1,047,251 | 157,234 |
| 2,925 | 203,915 | - |
| 68,860 | 445,818 | 124,469 |
| 16,017 | 253,527 | 55,794 |
| 87,802 | 903,260 | 180,263 |
| 58,699 | 143,991 | (23,029) |
| 6,575 | 52,447 | 9,696 |
| - | (41,055) | - |
| 6,575 | 11,392 | 9,696 |
| 65,274 | 155,383 | (13,333) |
| - | 158,939 | - |
| 65,274 | 314,322 | (13,333) |
| 451,626 | 7,839,880 | 486,409 |
| \$516,900 | \$8,154,202 | \$ 473,076 |

The accompanying notes are an integral part of this statement.

| | <u>Enterprise</u> | |
|---|-------------------|------------|
| <i>Year ended June 30, 2007</i> | Sewer | Water |
| Cash Flows from Operating Activities | | |
| Receipts from customers | \$ 415,776 | \$ 466,323 |
| Receipts from operating grants | - | 15,759 |
| Receipts from interfund services provided | - | - |
| Payments to suppliers | (187,532) | (174,062) |
| Payments to employees | (105,621) | (156,776) |
| Internal activity - payment to other funds | - | (23,653) |
| Net Cash Provided by Operating Activities | 122,623 | 127,591 |
| Cash Flows from Non-Capital and Related Financial Activities | | |
| Advances from other funds | - | - |
| Cash Flows from Capital and Related Financing Activities | | |
| Special assessment collections | 250 | - |
| Capital contributions | - | 158,939 |
| Purchases of capital assets | (7,620) | (242,823) |
| Decrease in deferred revenue | - | (28,079) |
| Principal and interest paid on long-term debt | (110,887) | (46,395) |
| Net Cash Used for Capital and Related Financing Activities | (118,257) | (158,358) |
| Cash Flow from Investing Activities | | |
| Investment income | 34,966 | 10,906 |
| Net increase (decrease) in cash and investments | 39,332 | (19,861) |
| Cash and Investments, beginning of year | 915,729 | 275,829 |
| Cash and Investments, end of year | \$ 955,061 | \$ 255,968 |

City of Montague, Michigan

Proprietary Funds

Statement of Cash Flows

| Funds | | |
|----------------------------------|--------------------|-----------------------------|
| Non-Major Enterprise Funds | Total | Internal Service Fund |
| \$145,319 | \$1,027,418 | \$ - |
| - | 15,759 | - |
| - | - | 157,234 |
| (48,974) | (410,568) | (74,420) |
| (23,910) | (286,307) | (47,393) |
| - | (23,653) | - |
| 72,435 | 322,649 | 35,421 |
| (35,000) | (35,000) | - |
| - | 250 | - |
| - | 158,939 | - |
| (2,280) | (252,723) | (59,462) |
| - | (28,079) | - |
| - | (157,282) | - |
| (2,280) | (278,895) | (59,462) |
| 6,575 | 52,447 | 9,696 |
| 41,730 | 61,201 | (14,345) |
| 141,031 | 1,332,589 | 260,502 |
| <u>\$182,761</u> | <u>\$1,393,790</u> | <u>\$ 246,157</u> |

The accompanying notes are an integral part of this statement.

This Statement Covers More Than One Page.

| | <u>Enterprise</u> | |
|---|-------------------|-------------------|
| <i>Year ended June 30, 2007</i> | Sewer | Water |
| Reconciliation of cash and investments to the statement of net assets | | |
| Cash and investments | \$ 616,996 | \$ 157,099 |
| Restricted assets | 338,065 | 98,869 |
| | \$ 955,061 | \$ 255,968 |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | |
| Operating income (loss) | \$ (14,240) | \$ 99,532 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 138,571 | 98,939 |
| Change in assets and liabilities | | |
| Receivables, net | (991) | (2,630) |
| Intergovernmental receivables | - | 275 |
| Due from other funds | - | (23,653) |
| Inventories | - | (3,374) |
| Accounts payables | (3,680) | (48,020) |
| Customer deposits | - | 454 |
| Accrued expenses | 2,963 | 6,068 |
| Deferred revenue | - | - |
| Net Cash Provided by Operating Activities | \$ 122,623 | \$ 127,591 |

City of Montague, Michigan

Proprietary Funds

Statement of Cash Flows

| Funds | | |
|----------------------------------|--------------------|-----------------------------|
| Non-Major Enterprise Funds | Total | Internal Service Fund |
| \$182,761 | \$ 956,856 | \$ 246,157 |
| - | 436,934 | - |
| <u>\$182,761</u> | <u>\$1,393,790</u> | <u>\$ 246,157</u> |
| \$ 58,699 | \$ 143,991 | \$ (23,029) |
| 16,017 | 253,527 | 55,794 |
| - | (3,621) | - |
| - | 275 | - |
| - | (23,653) | - |
| - | (3,374) | - |
| (1,154) | (52,854) | (214) |
| - | 454 | - |
| 55 | 9,086 | 2,870 |
| (1,182) | (1,182) | - |
| <u>\$ 72,435</u> | <u>\$ 322,649</u> | <u>\$ 35,421</u> |

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Fiduciary Funds

Statement of Fiduciary Net Assets

| | <u>Agency Fund</u> |
|-----------------------------------|------------------------------|
| | Montague Fire District |
| <i>June 30, 2007</i> | |
| <hr/> | |
| Assets | |
| Cash and cash equivalents | \$ 137,871 |
| Due from other governmental units | 3,250 |
| Prepaid items | 14,742 |
| Capital assets, net | 571,489 |
| <hr/> | |
| Total Assets | \$ 727,352 |
| <hr/> | |
| Liabilities | |
| Accounts payable | \$ 1,049 |
| Accrued liabilities | 17,435 |
| Unallocated receipts | 708,868 |
| <hr/> | |
| Total Liabilities | \$ 727,352 |
| <hr/> | |

The accompanying notes are an integral part of this statement.

City of Montague, Michigan

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the City of Montague, Michigan (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The City of Montague is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see description below) to emphasize that it is legally separate from the

Blended Component Units

Municipal Building Authority - The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service fund.

White Lake Area Building Board - The City appoints one-third of all Board members of the Building Board and approves its annual budget. The Building Board is reported as a special revenue fund.

City of Montague, Michigan

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the City of Montague, Michigan (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

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Blended Component Units

Municipal Building Authority - The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service fund.

White Lake Area Building Board - The City appoints one-third of all Board members of the Building Board and approves its annual budget. The Building Board is reported as a special revenue fund.

City of Montague, Michigan

Notes to Financial Statements

Discretely Presented Component Units

The discretely presented component units reported by the City include the Tax Increment Finance Authority (TIFA) and Downtown Development Authority (DDA). The TIFA and DDA boards are appointed by the City Council, but the boards, after election, operate as separate entities. The boards can authorize and issue debt independent from the City, but the City has in the past pledged the City's full faith and credit in support of the bonds issued. The TIFA and DDA are presented as governmental fund types.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

City of Montague, Michigan

Notes to Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

City of Montague, Michigan

Notes to Financial Statements

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

The City reports the following major governmental funds:

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

The *Major Street Fund* accounts for money distributed by the State of Michigan for street maintenance.

The City reports the following two major proprietary funds:

The *Sewer Fund* operates the City's sewage pumping station, collection systems and pays for access to the County's sewage treatment plant.

The *Water Fund* operates the City's water distribution system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for equipment operations to other departments or agencies of the City, on a cost reimbursement basis.

City of Montague, Michigan

Notes to Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Amounts reported as 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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Montague, Michigan

Notes to Financial Statements

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

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

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surplus are maintained in a cash and investment pool and allocated to each fund based on month-end deposit and investment balances.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

City of Montague, Michigan

Notes to Financial Statements

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

City of Montague, Michigan

Notes to Financial Statements

The City bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before August 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the City Treasurer. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

The 2006 taxable value for real/personal property of the City totaled \$76,544,656 of which \$8,982,010 was captured by the TIFA. The ad valorem taxes levied consisted of 15.75 mills for the City's operating purposes. These amounts are recognized in the respective General Fund and TIFA Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets as they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

In addition, certain funds of the Tax Increment Finance Authority are classified as restricted assets on the Statement of Net Assets as their use is limited by applicable agreements with the State of Michigan.

City of Montague, Michigan

Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 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. The City has elected to capitalize infrastructure assets using the prospective approach, from fiscal year 2004 forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--|--------------|
| Buildings and improvements | 20-40 |
| Public domain infrastructure | 20 |
| System infrastructure and improvements | 10-70 |
| Machinery and equipment | 5-20 |
| Access rights | 50 |

City of Montague, Michigan

Notes to Financial Statements

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of eight hours per month of employment up to 1,500 hours under the police contract and 1,200 hours for all other full-time City employees. Unused accumulated sick leave up to 30 days is paid at the employees' current rates to employees who resign and 60 days to employees who retire and have completed five continuous years of service with the City. A liability for sick pay is reported in the governmental funds only if the employee retires or resigns by the end of the fiscal year.

Long-Term Obligation

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

City of Montague, Michigan

Notes to Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements.

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Monday in June, the budget is legally enacted through passage of a resolution.

City of Montague, Michigan

Notes to Financial Statements

- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

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

3. Deposits and Investments

Custodial Credit Risk Related to Deposits

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. At June 30, 2007, \$2,138,146 of the City's bank balances of \$2,638,146 were exposed to custodial credit risk as follows:

| | |
|--------------------------------|--------------------|
| Uninsured and uncollateralized | <u>\$2,138,146</u> |
|--------------------------------|--------------------|

Investments

The City invests certain funds in an external investment pool (Pool) required by bond covenants. The Pool is not regulated nor is it registered with the SEC. The Pool reports as of June 30, 2007, the fair value of the City's investments of \$10,235 is the same as the value of the Pool shares.

City of Montague, Michigan

Notes to Financial Statements

At June 30, 2007, the City had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> |
|----------------------------------|-----------------|---------------------|
| Federal Home Loan Mortgage Corp. | 12/17/2007 | \$ 128,700 |
| Federal Home Loan Bank | 7/5/2007 | 249,533 |
| Federal Home Loan Bank | 1/28/2008 | 998,440 |
| Total | | \$ 1,376,673 |

Interest Rate Risk

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

Custodial Credit Risk Related to Investments

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy, pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. All of the City's investments are held in the name of the City.

City of Montague, Michigan

Notes to Financial Statements

Concentration of Credit Risk

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

Credit Risk

State statutes authorize the City to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The City's investment policy does not further limit its investment choices. At June 30, 2007 the City's investments in Federal Home Loan Mortgage Corporation and Federal Home Loan Bank notes were rated AAA by Moody's.

Foreign Currency Risk

The City is not authorized to invest in investments which have this type of risk.

City of Montague, Michigan

Notes to Financial Statements

4. Restricted Assets

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2007, restricted cash and investments in the enterprise funds are restricted as follows:

| | |
|------------------------------|------------|
| Business-Type Activities | |
| Water Fund | |
| Repairs and replacement | \$ 53,036 |
| Bond and interest redemption | 45,833 |
| | <hr/> |
| | 98,869 |
| Sewer fund | |
| Repairs and replacement | 267,215 |
| Bond and interest redemption | 70,850 |
| | <hr/> |
| | 338,065 |
| | <hr/> |
| | \$ 436,934 |

Restrictions are also placed on assets by the authority of the State of Michigan. At June 30, 2007, restricted cash and investments totaling \$177,690 in the Tax Increment Financing Authority component unit are restricted for capital projects.

City of Montague, Michigan

Notes to Financial Statements

5. Interfund Receivables, Payables, and Transfers

The composition of interfund balances, caused by normal operations, is as follows:

Advances to/from other funds:

| Receivable entity | Payable entity | Amount |
|-------------------|-----------------|----------|
| General Fund | Campground Fund | \$15,000 |

Due to/from other funds:

| Receivable entity | Payable entity | Amount |
|-------------------|--------------------|----------|
| Water Fund | Local Streets Fund | \$23,653 |

Interfund transfers:

| Transfers Out | Transfers in: | | | Total | Purpose |
|--------------------------|---------------|-------------------|--------------------------|------------|----------------------------|
| | General Fund | Major Street Fund | Other Governmental Funds | | |
| General Fund | \$ - | \$120,000 | \$ 277,318 | \$ 397,318 | Debt service, construction |
| Other Governmental Funds | 6,659 | - | 3,000 | 9,659 | Operations, construction |
| | \$ 6,659 | \$120,000 | \$ 280,318 | \$ 406,977 | |

City of Montague, Michigan

Notes to Financial Statements

6. Capital Assets

Capital asset activities for the year ended June 30, 2007 was as follows:

| Governmental Activities | Balance July 1, 2006 | Increases | Decreases | Balance June 30, 2007 |
|---|----------------------------|------------|-----------|-----------------------------|
| Capital assets, not depreciable | | | | |
| Land | \$ 801,775 | \$ 230,000 | \$ 400 | \$1,031,375 |
| Construction in progress | - | 26,985 | - | 26,985 |
| Total capital assets, not depreciable | 801,775 | 256,985 | 400 | 1,058,360 |
| Capital assets, being depreciated | | | | |
| Land improvements | 444,816 | 12,075 | - | 456,891 |
| Buildings and other improvements | 1,009,723 | 15,902 | - | 1,025,625 |
| Machinery and equipment | 1,043,128 | 68,878 | - | 1,112,006 |
| Infrastructure | 1,113,384 | 109,116 | - | 1,222,500 |
| Total capital assets being depreciated | 3,611,051 | 205,971 | - | 3,817,022 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 80,666 | 22,693 | - | 103,359 |
| Buildings and other improvements | 418,484 | 23,961 | - | 442,445 |
| Machinery and equipment | 713,209 | 81,651 | - | 794,860 |
| Infrastructure | 87,996 | 59,761 | - | 147,757 |
| Total accumulated depreciation | 1,300,355 | 188,066 | - | 1,488,421 |
| Total capital assets, being depreciated, net | 2,310,696 | 17,905 | - | 2,328,601 |
| Capital Assets, Net | \$3,112,471 | \$ 274,890 | \$ 400 | \$3,386,961 |

City of Montague, Michigan

Notes to Financial Statements

| Business-Type Activities | Balance July 1, 2006 | Increases | Decreases | Balance June 30, 2007 |
|---|----------------------------|-----------|-----------|-----------------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 73,200 | \$ - | \$ - | \$ 73,200 |
| Construction in progress | 695,796 | 163,549 | - | 859,345 |
| Total capital assets, not being depreciated | 768,996 | 163,549 | - | 932,545 |
| Capital assets, being depreciated | | | | |
| Land improvements | 331,320 | 2,280 | - | 333,600 |
| Water and sewer systems | 9,502,457 | 86,894 | - | 9,589,351 |
| Buildings and other improvements | 777,472 | - | - | 777,472 |
| Machinery and equipment | 199,686 | - | - | 199,686 |
| Total capital assets being depreciated | 10,810,935 | 89,174 | - | 10,900,109 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 87,020 | 10,652 | - | 97,672 |
| Water and sewer systems | 3,425,117 | 190,765 | - | 3,615,882 |
| Buildings and other improvements | 415,241 | 18,963 | - | 434,204 |
| Machinery and equipment | 194,556 | 1,062 | - | 195,618 |
| Total accumulated depreciation | 4,121,934 | 221,442 | - | 4,343,376 |
| Total capital assets, being depreciated, net | 6,689,001 | (132,268) | - | 6,556,733 |
| Capital Assets, Net | \$7,457,997 | \$ 31,281 | \$ - | \$7,489,278 |
| | | | | |
| Component Units | Balance July 1, 2006 | Increases | Decreases | Balance June 30, 2007 |
| Tax Increment Finance Authority | | | | |
| Capital assets, being depreciated | | | | |
| Infrastructure | \$ 46,279 | \$ 98,706 | \$ - | \$ 144,985 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 512 | 2,796 | - | 3,308 |
| Capital Assets, Net | \$ 45,767 | \$ 95,910 | \$ - | \$ 141,677 |

City of Montague, Michigan

Notes to Financial Statements

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

Government Activities

| | |
|--|-----------|
| General government | \$ 38,174 |
| Public safety | 55,505 |
| Public works | 30,744 |
| Culture and recreation | 7,849 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | 55,794 |

Total Depreciation Expense - Governmental Activities \$ 188,066

Business-Type Activities

| | |
|------------------------|------------|
| Sewer | \$ 107,764 |
| Water | 97,661 |
| Other enterprise funds | 16,017 |

Total Depreciation Expense - Business-Type Activities \$ 221,442

Component Units

| | |
|---------------------------------|----------|
| Tax Increment Finance Authority | \$ 2,796 |
|---------------------------------|----------|

City of Montague, Michigan

Notes to Financial Statements

| 7. Access Rights | Balance July 1, 2006 | Increases | Decreases | Balance June 30, 2007 |
|---|----------------------------|-------------|-----------|-----------------------------|
| Sewer Fund | | | | |
| Access Rights (40 years) | \$ 866,831 | \$ - | \$ - | \$ 866,831 |
| Less accumulated amortization | (692,359) | (27,962) | - | (720,321) |
| Access Rights, Net of Accumulated Amortization | | | | |
| | \$ 174,472 | \$ (27,962) | \$ - | \$ 146,510 |

| 8. Bond Issuance Costs | Balance July 1, 2006 | Increases | Decreases | Balance June 30, 2007 |
|---|----------------------------|------------|-----------|-----------------------------|
| Sewer Fund | | | | |
| Issuance | \$ 34,161 | \$ - | \$ - | \$ 34,161 |
| Discount | 1,884 | - | - | 1,884 |
| Water Fund | | | | |
| Issuance | 20,764 | - | - | 20,764 |
| Discount | 2,456 | - | - | 2,456 |
| Total Bond Issuance Cost | 59,265 | - | - | 59,265 |
| Less amortization | | | | |
| Sewer over 152 months | 6,639 | 2,845 | - | 9,484 |
| Water over 218 months | 2,982 | 1,278 | - | 4,260 |
| | 9,621 | 4,123 | - | 13,744 |
| Total Bond Issuance Costs, Net of Accumulated Amortization | | | | |
| | \$ 49,644 | \$ (4,123) | \$ - | \$ 45,521 |

Amortization expense has been charged to the following functions:

| | |
|-------|----------|
| Sewer | \$ 2,845 |
| Water | 1,278 |
| | \$ 4,123 |

City of Montague, Michigan

Notes to Financial Statements

9. Deferred Revenue Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the deferred revenue, which represented unearned revenue reported in the governmental funds were special assessments not yet available of \$2,467.

10. Long-Term Debt The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2007.

| | Balance July 1, 2006 | Increases | Decreases | Balance June 30, 2007 | Due Within One Year |
|---|----------------------------|-----------|------------|-----------------------------|---------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds | \$ 245,000 | \$ - | \$ 245,000 | \$ - | \$ - |
| Compensated absences | 77,785 | 22,246 | - | 100,031 | - |
| Governmental Activities - Long-Term Liabilities | | | | | |
| | \$ 322,785 | \$ 22,246 | \$ 245,000 | \$ 100,031 | \$ - |
| Business-Type Activities: | | | | | |
| Revenue bonds | \$1,162,206 | \$ - | \$ 116,227 | \$1,045,979 | \$105,979 |
| Compensated absences | 31,377 | 5,462 | - | 36,839 | - |
| Business-Type Activities - Long-Term Liabilities | | | | | |
| | \$1,193,583 | \$ 5,462 | \$ 116,227 | \$1,082,818 | \$105,979 |

City of Montague, Michigan

Notes to Financial Statements

| | |
|--|-------------|
| Governmental Activities | |
| Compensated absences | \$ 100,031 |
| <hr/> | |
| Business-Type Activities | |
| Revenue bonds: | |
| \$555,000 Water Supply System refunding bonds of 2004 due in annual installments of \$25,000 to \$45,000 through May 2022; plus interest at rates varying from 2.7% to 5%. | \$ 490,000 |
| \$665,000 Sewage Disposal System refunding bonds of 2004 due in annual installments of \$45,000 to \$60,000 through November 2016; plus interest at rates varying from 2% to 4%. | 530,000 |
| Muskegon County Wastewater Management System No. 1 refunding bond of 2002 due in annual installments of \$26,628 through July 2008; including interest at 2.49%. | 25,979 |
| Compensated absences | 36,839 |
| <hr/> | |
| | \$1,082,818 |
| <hr/> | |

The general obligation bonds are backed by the full faith and credit of the City.

City of Montague, Michigan

Notes to Financial Statements

The 2002 County of Muskegon wastewater contract payable represents an agreement with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 50 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The 2002 County of Muskegon wastewater contract payable and the 2000 Water Supply revenue bonds are payable solely from the net revenues of the sewer and water supply directing the City to create funds restricted for use in the construction project and in debt service. Assets so restricted are detailed in Note 4.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2007.

City of Montague, Michigan

Notes to Financial Statements

Annual debt service requirements to maturity for bonded debt outstanding as of June 30, 2007 follows:

| | Business-Type Activities | |
|-----------|-----------------------------|-------------------|
| | Principal | Interest |
| 2008 | \$ 105,979 | \$ 37,981 |
| 2009 | 80,000 | 34,825 |
| 2010 | 90,000 | 32,663 |
| 2011 | 75,000 | 30,157 |
| 2012 | 80,000 | 27,707 |
| 2013-2017 | 410,000 | 94,028 |
| 2018-2022 | 205,000 | 31,825 |
| | <u>\$ 1,045,979</u> | <u>\$ 289,186</u> |

11. Other Information

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; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Contingent Liabilities/Grants

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

City of Montague, Michigan

Notes to Financial Statements

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") issued its Statement 45 - "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions." Other post-employment benefits ("OPEB") include post-employment healthcare insurance as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. GASB Statement 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The City currently provides post-retirement health care to certain full-time employees after they reach age 55 and have 20 years of service or age 60 and have 10 years of service. The City pays between 60 percent and 100 percent of the premium depending on the employee's age and length of service. Similar to other governmental units, the City has funded its OPEB program on a pay-as-you-go basis, but will be required to begin reporting OPEB on an actuarial basis in its fiscal year beginning July 1, 2009.

As of year end, there were two retired employees receiving benefits. For the year ended June 30, 2007, the City's post-retirement health care cost under the Plan was approximately \$21,000.

Jointly Governed Organization

The City, in conjunction with other governmental entities, created the White Lake Solid Waste Authority (WLSWA) to operate a solid waste transfer station, the White Lake Ambulance Authority (WLAA) to provide ambulance services and the Montague Fire District to provide emergency services.

City of Montague, Michigan

Notes to Financial Statements

Commitments

During the year ended June 30, 2007, the City entered into various agreements for street reconstruction totaling approximately \$626,700. The remaining balance on the contracts at June 30, 2007 was approximately \$542,500. In addition, the City's Downtown Development Authority component unit entered into an agreement for street reconstruction of approximately \$137,600, the full amount of which was remaining on the contract at June 30, 2007.

12. Employee Retirement System and Pension Plan

Plan Description. The City of Montague is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Montague. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Montague
8778 Ferry Street
Montague, MI 49437

Funding Policy. City employees are required to contribute a rate from 6.66 to 7.02 percent to the Plan depending upon position. The City is required to contribute at an actuarially-determined rate depending upon position from 5.95 to 9.75 percent of covered wages.

City of Montague, Michigan

Notes to Financial Statements

Annual Pension Cost. For the year ended June 30, 2007, the City's annual pension cost was approximately \$72,000 which the City contributed. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 8 percent to 4.5 percent, an (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

| Year Ending | Approximate Annual Pension Cost (APC) | Percent of APC Contributed | Net Pension Obligation |
|----------------|--|-------------------------------|---------------------------|
| 6/30/05 | 67,000 | 100% | - |
| 6/30/06 | 67,000 | 100% | - |
| 6/30/07 | 72,000 | 100% | - |

Required Supplemental Information

Schedule of Funding Progress

(Dollar amounts in thousands)

| Actuarial Valuation as of December 31, | 2004 | 2005 | 2006 |
|---|----------|----------|----------|
| Actuarial value of assets | \$ 1,684 | \$ 1,849 | \$ 2,069 |
| Actuarial accrued liability (AAL) Entry Age | 2,114 | 2,306 | 2,646 |
| Unfunded AAL (UAAL) | 430 | 457 | 577 |
| Funded ratio | 80% | 80% | 78% |
| Covered payroll | \$ 707 | \$ 762 | \$ 794 |
| UAAL as a percentage of covered payroll | 60.8% | 60.0% | 72.7% |

City of Montague, Michigan

Notes to Financial Statements

13. Economic Dependency State of Michigan shared revenues represent 13 percent of General Fund revenues.

The City's Water Supply Fund has a significant economic dependence on a local corporation that is a major taxpayer and user of water services. During the year ended June 30, 2007, the corporation's billings for water usage approximated 6 percent of total billings in the Water Supply Fund and 19 percent for property taxes.

14. Excess of Expenditures Over Appropriations in Budgetary Funds During the year ended June 30, 2007, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

| | Appropriation | Actual Expenditures |
|----------------------|---------------|---------------------|
| General Fund | | |
| Administration | \$ 102,978 | \$ 103,270 |
| Police | 551,945 | 567,579 |
| Public Works Control | 93,802 | 94,180 |
| Major Street Fund | | |
| Adm/Eng/Records | 98,145 | 125,160 |

15. Reconciliation of Capital Outlay Capital outlay expenditures for governmental funds differ from amounts capitalized. The differences are detailed as follows:

| | |
|---|------------------|
| Total capital purchases as reported in the governmental funds | \$159,763 |
| Donated from TIFA | 15,902 |
| Received as settlement of note receivable | 230,000 |
| Expenditures under the capitalization limit | (2,171) |
| Net Assets capitalized | \$403,494 |

Required Supplemental Material



City of Montague, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

| <i>Year ended June 30, 2007</i> | Budgeted amounts | | Actual | Variance with |
|---------------------------------|------------------|------------------|------------------|--|
| | Original | Final | | Final Budget - Positive (Negative) |
| Revenues | | | | |
| Property taxes | \$1,374,964 | \$1,374,964 | \$1,336,010 | \$ (38,954) |
| Licenses and permits | 16,790 | 16,790 | 17,217 | 427 |
| Intergovernmental revenues | | | | |
| State | 221,310 | 221,310 | 221,577 | 267 |
| Local | 1,400 | 1,400 | 1,385 | (15) |
| Charges for services | 43,075 | 43,075 | 46,350 | 3,275 |
| Fines and forfeitures | 7,300 | 7,300 | 7,129 | (171) |
| Investment earnings | 45,059 | 77,059 | 87,182 | 10,123 |
| Other | 55,439 | 55,439 | 40,168 | (15,271) |
| Total Revenues | 1,765,337 | 1,797,337 | 1,757,018 | (40,319) |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Council | 22,325 | 22,325 | 18,755 | 3,570 |
| Administration | 99,033 | 102,978 | 103,270 | (292) |
| Administrative Assistant | 64,287 | 64,287 | 63,472 | 815 |
| Election Commission | 6,700 | 6,700 | 2,813 | 3,887 |
| Clerk | 80,780 | 80,780 | 80,232 | 548 |
| Equalization | 18,000 | 18,000 | 17,050 | 950 |
| Employee Safety Committee | 550 | 550 | 392 | 158 |
| Board of Review | 1,038 | 1,038 | 505 | 533 |
| Other | 36,050 | 36,405 | 36,387 | 18 |
| Treasurer | 53,708 | 53,708 | 52,169 | 1,539 |
| Computer/Xeroxing | 20,000 | 20,000 | 18,366 | 1,634 |
| Building and grounds | 49,019 | 49,019 | 54,584 | (5,565) |
| Community buildings | 1,064 | 1,064 | 740 | 324 |
| Parking lot | 2,410 | 2,620 | 2,471 | 149 |
| Cemetery | 84,218 | 84,218 | 74,743 | 9,475 |
| Public safety | | | | |
| Public safety | 105,844 | 108,844 | 107,050 | 1,794 |
| Police | 532,427 | 547,645 | 563,291 | (15,646) |

City of Montague, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund

| <i>Year ended June 30, 2007</i> | Budgeted amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|------------------|--------------------|-------------------|---|
| | Original | Final | | |
| Expenditures - Continued | | | | |
| Current - continued | | | | |
| Public safety - continued | | | | |
| Planning Commission | \$ 1,150 | \$ 8,050 | \$ 7,076 | \$ 974 |
| Zoning Board of Appeals | 1,150 | 1,150 | 283 | 867 |
| Public works | | | | |
| Public works | 81,362 | 93,802 | 94,180 | (378) |
| Sidewalks | 9,547 | 9,547 | 8,812 | 735 |
| Sidewalk repair and construction | 45,000 | 45,000 | 21,302 | 23,698 |
| Community and economic development | | | | |
| Economic development | 1,500 | 1,500 | 250 | 1,250 |
| Culture and recreation | | | | |
| Parks | 91,422 | 91,422 | 90,918 | 504 |
| Library | 8,075 | 8,935 | 8,771 | 164 |
| Other | 11,619 | 11,619 | 8,448 | 3,171 |
| Other governmental functions | 62,892 | 32,892 | 27,610 | 5,282 |
| Capital outlay | 49,028 | 49,028 | 22,283 | 26,745 |
| Total Expenditures | 1,540,198 | 1,553,126 | 1,486,223 | 66,903 |
| Excess of Revenues Over Expenditures | 225,139 | 244,211 | 270,795 | 26,584 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 43,000 | 43,000 | 6,659 | (36,341) |
| Transfers out | (196,800) | (406,800) | (397,318) | 9,482 |
| Proceeds from sale of fixed assets | 2,500 | 27,400 | 24,917 | (2,483) |
| Total Other Financing Uses | (151,300) | (336,400) | (365,742) | (29,342) |
| Net Change in Fund Balance | \$ 73,839 | \$ (92,189) | (94,947) | \$ (2,758) |
| Fund Balance, at beginning of year | | | 1,088,975 | |
| Fund Balance, at end of year | | | \$ 994,028 | |

City of Montague, Michigan

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Street Fund

| <i>Year ended June 30, 2007</i> | Budgeted amounts | | Actual | Variance with |
|---|---------------------|---------------------|-------------------|--|
| | Original | Final | | Final Budget - Positive (Negative) |
| Revenues | | | | |
| Intergovernmental revenues - State | \$ 162,649 | \$ 162,649 | \$ 160,444 | \$ (2,205) |
| Charges for services | 200 | 200 | 1,689 | 1,489 |
| Investment earnings | 3,500 | 3,500 | 5,970 | 2,470 |
| Other | - | - | 1,062 | 1,062 |
| Total Revenues | 166,349 | 166,349 | 169,165 | 2,816 |
| Expenditures | | | | |
| Current | | | | |
| Public works | 204,914 | 211,324 | 233,759 | (22,435) |
| Capital outlay | 191,700 | 191,700 | 136,104 | 55,596 |
| Total Expenditures | 396,614 | 403,024 | 369,863 | 33,161 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | (230,265) | (236,675) | (200,698) | 35,977 |
| Other Financing Sources | | | | |
| Transfers in | 120,000 | 120,000 | 120,000 | - |
| Net Change in Fund Balance | \$ (110,265) | \$ (116,675) | (80,698) | \$ 35,977 |
| Fund Balance, at beginning of year | | | 286,576 | |
| Fund Balance, at end of year | | | \$ 205,878 | |

City of Montague, Michigan

Required Supplementary Information for Pension Plans - GASB 27

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|--|
| December 31: | | | | | | |
| 2004 | 1,684 | 2,114 | 430 | 80% | 707 | 60.8% |
| 2005 | 1,849 | 2,306 | 457 | 80% | 762 | 60.0% |
| 2006 | 2,069 | 2,646 | 577 | 78% | 794 | 72.7% |

| <i>June 30, 2007</i> | Total Non-Major Governmental Funds | Local Streets | Small Cities Grant Revolving |
|--|--|------------------|------------------------------------|
| Assets | | | |
| Cash and investments | \$ 628,980 | \$208,504 | \$ - |
| Due from other governmental units | 9,961 | 9,961 | - |
| Prepaid items | 1,500 | - | 1,500 |
| Total Assets | \$ 640,441 | \$218,465 | \$ 1,500 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 16,750 | \$ - | \$ - |
| Accrued liabilities | 439 | 203 | - |
| Due to other funds | 23,653 | 23,653 | - |
| Total Liabilities | 40,842 | 23,856 | - |
| Fund balances | | | |
| Reserved for perpetual care | 176,547 | - | - |
| Unreserved | | | |
| Designated - special revenue funds | 82,772 | - | - |
| Undesignated - special revenue funds | 247,827 | 194,609 | 1,500 |
| Undesignated - capital project fund | 92,453 | - | - |
| Total Fund Balances | 599,599 | 194,609 | 1,500 |
| Total Liabilities and Fund Balances | \$ 640,441 | \$218,465 | \$ 1,500 |

City of Montague, Michigan

Combining Balance Sheet - Non-Major Governmental Funds

| Special Revenue Funds | | | | | Permanent Fund |
|--------------------------------------|--------------------|-----------------------------|--------------------|-----------------|-------------------------------|
| White Lake Area Building Board | Public Projects | Employee Benefit Plan | Capital Project | Debt Service | Cemetery Perpetual Care |
| \$ 38,119 | \$ 30,585 | \$ 82,772 | \$ 92,453 | \$ - | \$176,547 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| | | | | | |
| \$ 38,119 | \$ 30,585 | \$ 82,772 | \$ 92,453 | \$ - | \$176,547 |
| | | | | | |
| \$ 16,750 | \$ - | \$ - | \$ - | \$ - | \$ - |
| 236 | - | - | - | - | - |
| - | - | - | - | - | - |
| | | | | | |
| 16,986 | - | - | - | - | - |
| - | - | - | - | - | 176,547 |
| - | - | 82,772 | - | - | - |
| 21,133 | 30,585 | - | - | - | - |
| - | - | - | 92,453 | - | - |
| | | | | | |
| 21,133 | 30,585 | 82,772 | 92,453 | - | 176,547 |
| | | | | | |
| \$ 38,119 | \$ 30,585 | \$ 82,772 | \$ 92,453 | \$ - | \$176,547 |
| | | | | | |

| <i>Year ended June 30, 2007</i> | Total Non-Major Governmental Funds | Local Streets | Small Cities Grant Revolving |
|--|--|-------------------|------------------------------------|
| Revenues | | | |
| Licenses and permits | \$ 58,743 | \$ - | \$ - |
| Intergovernmental revenues | | | |
| Federal | 2,809 | - | - |
| State | 70,816 | 70,816 | - |
| Charges for services | 43,624 | 25 | - |
| Investment earnings | 30,730 | 6,773 | 8,376 |
| Total Revenues | 206,722 | 77,614 | 8,376 |
| Expenditures | | | |
| Current | | | |
| Public safety | 87,030 | - | - |
| Public works | 243,223 | 59,476 | 183,747 |
| Debt service | | | |
| Principal | 245,000 | - | - |
| Interest and fees | 13,800 | - | - |
| Capital outlay | 1,376 | - | - |
| Total Expenditures | 590,429 | 59,476 | 183,747 |
| Excess of Revenues Over (Under) Expenditures | (383,707) | 18,138 | (175,371) |
| Other Financing Sources (Uses) | | | |
| Transfers in | 280,318 | 20,000 | - |
| Transfers out | (9,659) | - | - |
| Total Other Financing Sources (Uses) | 270,659 | 20,000 | - |
| Net Change in Fund Balances | (113,048) | 38,138 | (175,371) |
| Fund Balances, at beginning of year | 712,647 | 156,471 | 176,871 |
| Fund Balances, at end of year | \$ 599,599 | \$ 194,609 | \$ 1,500 |

City of Montague, Michigan

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds



| <u>Special Revenue Funds</u> | | | | | <u>Permanent Fund</u> |
|--------------------------------------|--------------------|-----------------------------|--------------------|-----------------|-------------------------------|
| White Lake Area Building Board | Public Projects | Employee Benefit Plan | Capital Project | Debt Service | Cemetery Perpetual Care |
| \$ 58,743 | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | 2,809 | - | - |
| - | - | - | - | - | - |
| 20,584 | 17,250 | - | - | - | 5,765 |
| 1,188 | 950 | 3,122 | 3,174 | 488 | 6,659 |
| <u>80,515</u> | <u>18,200</u> | <u>3,122</u> | <u>5,983</u> | <u>488</u> | <u>12,424</u> |
| 87,030 | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | 245,000 | - |
| - | - | - | - | 13,800 | - |
| - | - | - | 1,376 | - | - |
| <u>87,030</u> | <u>-</u> | <u>-</u> | <u>1,376</u> | <u>258,800</u> | <u>-</u> |
| (6,515) | 18,200 | 3,122 | 4,607 | (258,312) | 12,424 |
| - | - | 5,000 | 3,000 | 252,318 | - |
| - | (3,000) | - | - | - | (6,659) |
| <u>-</u> | <u>(3,000)</u> | <u>5,000</u> | <u>3,000</u> | <u>252,318</u> | <u>(6,659)</u> |
| (6,515) | 15,200 | 8,122 | 7,607 | (5,994) | 5,765 |
| <u>27,648</u> | <u>15,385</u> | <u>74,650</u> | <u>84,846</u> | <u>5,994</u> | <u>170,782</u> |
| <u>\$ 21,133</u> | <u>\$ 30,585</u> | <u>\$ 82,772</u> | <u>\$ 92,453</u> | <u>\$ -</u> | <u>\$ 176,547</u> |

City of Montague, Michigan

Combining Statement of Net Assets - Non-Major Enterprise Funds

| <i>June 30, 2007</i> | Total Non-Major Enterprise Funds | Boat Launching Ramp | Campground |
|---|---|---------------------------|------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and investments | \$182,761 | \$ 132,256 | \$ 50,505 |
| Non-Current Assets | | | |
| Capital assets, net | 353,286 | 144,880 | 208,406 |
| Total Assets | 536,047 | 277,136 | 258,911 |
| Liabilities and Net Assets | | | |
| Liabilities | | | |
| Accounts payable | 2,442 | 313 | 2,129 |
| Accrued expenses | 55 | 55 | - |
| Deferred revenue | 1,650 | - | 1,650 |
| Advances from other funds | 15,000 | - | 15,000 |
| Total Liabilities | 19,147 | 368 | 18,779 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 353,286 | 144,880 | 208,406 |
| Unrestricted | 163,614 | 131,888 | 31,726 |
| Total Net Assets | \$516,900 | \$ 276,768 | \$240,132 |

City of Montague, Michigan

Combining Statement of Revenues, Expenses and Changes in Net Assets - Non-Major Enterprise Funds

| <i>Year ended June 30, 2007</i> | Total Non-Major Enterprise Funds | Boat Launching Ramp | Campground |
|---|---|---------------------------|------------------|
| Revenues | | | |
| Charges for services | \$146,501 | \$ 46,074 | \$100,427 |
| Operating Expenses | | | |
| Administration | 2,925 | 2,925 | - |
| Operations | 68,860 | 18,864 | 49,996 |
| Depreciation | 16,017 | 6,962 | 9,055 |
| Total Operating Expenses | 87,802 | 28,751 | 59,051 |
| Operating Income | 58,699 | 17,323 | 41,376 |
| Non-Operating Revenues | | | |
| Investment income | 6,575 | 4,404 | 2,171 |
| Change in Net Assets | 65,274 | 21,727 | 43,547 |
| Net Assets, at beginning of year | 451,626 | 255,041 | 196,585 |
| Net Assets, at end of year | \$516,900 | \$ 276,768 | \$240,132 |

City of Montague, Michigan

Combining Statement of Cash Flows - Non-Major Enterprise Funds

| <i>Year ended June 30, 2007</i> | Total Non-Major Enterprise Funds | Boat Launching Ramp | Campground |
|--|---|---------------------------|------------|
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$145,319 | \$ 46,074 | \$ 99,245 |
| Payments to suppliers | (48,974) | (14,716) | (34,258) |
| Payments to employees | (23,910) | (6,795) | (17,115) |
| Net Cash Provided by Operating Activities | 72,435 | 24,563 | 47,872 |
| Cash Flows from Non-Capital and Related Financial Activities | | | |
| Advances from other funds | (35,000) | - | (35,000) |
| Cash Flows from Capital and Related Financial Activities | | | |
| Purchase of capital assets | (2,280) | - | (2,280) |
| Cash Flow from Investing Activities | | | |
| Investment income | 6,575 | 4,404 | 2,171 |
| Net increase in cash and investments | 41,730 | 28,967 | 12,763 |
| Cash and Investments, at beginning of year | 141,031 | 103,289 | 37,742 |
| Cash and Investments, at end of year | \$182,761 | \$ 132,256 | \$ 50,505 |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | \$ 58,699 | \$ 17,323 | \$ 41,376 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation | 16,017 | 6,962 | 9,055 |
| Change in assets and liabilities | | | |
| Accounts payable | (1,154) | 223 | (1,377) |
| Accrued expenses | 55 | 55 | - |
| Deferred revenue | (1,182) | - | (1,182) |
| Net Cash Provided by Operating Activities | \$ 72,435 | \$ 24,563 | \$ 47,872 |

City of Montague, Michigan

Management Letter
Year ended June 30, 2007



3145 HENRY STREET, STE. 200
MUSKEGON, MI 49441-4052
TEL: 231-739-9441
FAX: 231-733-0031
WWW.PRIDNIALAPRES.COM

Honorable Mayor and
Members of the City Council
City of Montague, Michigan

During the course of our audit of the financial statements of the City of Montague, Michigan as of June 30, 2007 and for the year then ended, we observed the City's significant accounting policies and procedures and certain administrative, and financial practices.

As a result of our observations, we have prepared for management's review and evaluation, the enclosed memorandum containing suggestions regarding internal control, financial and administrative practices of the City of Montague, Michigan.

Matters which related to internal accounting control were not of a magnitude that would effect the presentation of the financial statements.

We appreciate the cooperation from management and the staff of the City of Montague, Michigan that our personnel received during the audit.

Pridnia Lapres, PLLC

October 31, 2007

City of Montague, Michigan

Current Year Comments

Periodic Change of Passwords

During our audit of the City for the year ended June 30, 2007, we noted that computer logon passwords for the accounting software are not currently required to be changed.

Recommendation

We recommend that passwords be changed on a periodic basis (e.g., every 60 days) to maintain security over the accounting software and records.

New Pronouncements

There are several new pronouncements that have been issued by the Governmental Accounting Standards Board (GASB) that will affect future comprehensive annual financial reports issued by the City. A brief summary of these new pronouncements is listed below:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* addresses how the City should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively these benefits are referred to as other postemployment benefits (OPEB). It will require the City to account for OPEB essentially the same as you do for pensions. This will require an actuarial valuation for the applicable OPEB plans. This pronouncement will be effective for the City for the year ending June 30, 2010.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* discusses how to identify and report pollution remediation obligations. The pronouncement identifies five obligating events which could trigger recording a liability and will be effective for the year ending June 30, 2009.

GASB Statement No. 50, *Pension Disclosures* amends Statements No. 25 and 27 to more closely align the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) by requiring disclosure of the funded status of the plan as of the most recent actuarial valuation date in the footnotes to financial statements. This pronouncement will be effective for the year ending June 30, 2008.

City of Montague, Michigan

Current Year Comments

GASB Invitation to Comment, *Fund Balance Reporting* attempts to clarify the availability of resources in funds other than the General Fund and define what is meant by “legally restricted”.

There are several new pronouncements issued by the American Institute of Certified Public Accountants (AICPA).

The AICPA has issued eight statements commonly referred to as the ***Risk Assessment Standards*** to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the City’s operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements. These standards will be effective for the year ending June 30, 2008.

Recommendation

Review the new pronouncements to determine changes necessary to ensure that the City is in compliance with applicable financial statement and note disclosures.

Honorable Mayor and
Members of the City Council
City of Montague, Michigan

October 31, 2007

In planning and performing our audit of the financial statements of the City of Montague, Michigan (the City) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute significant deficiencies.

During our audit of the City, we noted that bank reconciliations were not being prepared or reviewed on a timely basis. Timely preparation and review of bank reconciliations will help ensure that all related accounting transactions are recorded on a timely basis and that all reconciling items are efficiently identified and resolved.

Honorable Mayor and
Members of the City Council
City of Montague, Michigan

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October 31, 2007

The American Institute of Certified Public Accountants (AICPA) has issued Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*. This statement requires the independent auditor to perform additional procedures that are intended to reduce the risk that material fraud may go undetected. You should be aware that, while these additional procedures may reduce the risk of material undetected fraud, they do not eliminate risk. It is management's responsibility to design and implement programs and controls to prevent, deter and detect fraud. During our audit of the City, we noted that there was no documented fraud prevention policy in place.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting). The City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

This communication is intended solely for the information and use of the City Council and management of the City of Montague, Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rudnia Labra, PLLC".