

**City of Eaton Rapids  
Eaton County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2017**

City of Eaton Rapids

TABLE OF CONTENTS

June 30, 2017

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-ix
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	6
Proprietary Funds	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9-10
Fiduciary Fund	
Statement of Fiduciary Assets and Liabilities	11
Component Units	
Combining Statement of Net Position	12
Combining Statement of Activities	13
Notes to Financial Statements	14-36
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	37-39
Defined Benefit Pension Plan	
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios	40
Schedule of Employer Contributions	41
Post-Employment Health Care Benefits	
Schedules of Funding Progress and Employer Contributions	42
Note to Required Supplementary Information	43
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	44-47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	48-51
UTILITY FUND	
Revenues and Expenses	52
Expense Breakdown	53

City of Eaton Rapids

TABLE OF CONTENTS - CONTINUED

June 30, 2017

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION - CONTINUED	
INTERNAL SERVICE FUNDS	
Combining Statement of Net Position	54
Combining Statement of Revenues, Expenses, and Changes in Net Position	55
Combining Statement of Cash Flows	56
COMPONENT UNIT FUNDS	
LDFA ISLAND INDUSTRIAL PARK	
Balance Sheet	57
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	58
Statement of Revenues, Expenditures, and Changes in Fund Balance	59
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	60
TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	
Balance Sheet	61
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	62
Statement of Revenues, Expenditures, and Changes in Fund Balance	63
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	64



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Eaton Rapids, Michigan

### **Report on the Financial Statements**

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 Eaton Rapids, Michigan, (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principles**

As discussed in Note O to the financial statements, the City implemented GASB Statement No. 77, *Tax Abatement Disclosures*, during the year. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that were previously not consistently or comprehensively reported to the public. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension and OPEB schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

*Stevens Kirinovic & Tucker, P.C.*

STEVENS, KIRINOVIC & TUCKER, P.C.  
Certified Public Accountants

November 30, 2017

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

This section of the City of Eaton Rapids annual report presents our discussion and analysis of the City of Eaton Rapids financial performance during the year ended June 30, 2017. Please read it in conjunction with the City's financial statements, which immediately follow this section.

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the City's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2017.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Eaton Rapids financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole, presenting both an aggregate view of the City's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds - the General Fund and the Utility Fund, and other smaller funds collectively as non-major governmental funds.

**Government-Wide Financial Statements**

One of the most important questions asked about the City of Eaton Rapids is, "As a whole, what is the City's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Activities (page 2) presents information showing how the City of Eaton Rapids' net position changed during fiscal year 2017. All changes in net position are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods.

Both statements report the following activities:

- **Governmental Activities** - Most of the City of Eaton Rapids basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. This also includes the activities such as the major and local street maintenance, and debt service.
- **Business-type Activities** - These activities operate like private businesses. The City of Eaton Rapids charges fees to recover the cost of the services provided.
- **Discretely Presented Component Units** - Discretely presented component units are legally separate organizations for which the City of Eaton Rapids Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City of Eaton Rapids.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

As stated previously, the government-wide financial statements are full accrual basis statements. However, the governmental funds report on a modified accrual basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources. Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types.

**Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City of Eaton Rapids uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as funds required by bond or grant agreements. Funds are also utilized to track specific operations; these include the internal services fund (e.g. Motor pool) as well as enterprise funds such as the Utility Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The City of Eaton Rapids funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- Governmental Funds - Most of the City of Eaton Rapids basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City of Eaton Rapids programs. Governmental funds include the General Fund, as well as special revenue, debt service, capital projects, and permanent funds.
- Proprietary Funds - Services for which the City of Eaton Rapids charges customers a fee are generally reported in proprietary funds. Proprietary funds use the same accrual basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. Enterprise funds report activities that provide supplies and/or services to the general public. Internal Service funds report activities that provide supplies or service to the City of Eaton Rapids other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 14 of this report.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedule for the General Fund and historical pension and OPEB information.

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for non-major governmental funds. These funds are added together, by fund type, and are presented in a single aggregate column in the basic financial statements.

**Summary of Net Position:**

The following summarizes the net position as of June 30, 2017 and 2016.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>						
Current and other assets	\$ 2,887,291	\$ 4,235,114	\$ 7,376,483	\$ 5,914,108	\$ 10,263,774	\$ 10,149,222
Capital assets, net	8,126,128	7,453,417	10,959,173	12,010,238	19,085,301	19,463,655
Total assets	11,013,419	11,688,531	18,335,656	17,924,346	29,349,075	29,612,877
Deferred outflows of resources	679,639	1,062,006	508,812	729,231	1,188,451	1,791,237
<b>Liabilities</b>						
Current	701,630	784,510	843,524	1,133,806	1,545,154	1,918,316
Noncurrent	8,218,713	8,581,442	11,485,193	11,870,770	19,703,906	20,452,212
Total liabilities	8,920,343	9,365,952	12,328,717	13,004,576	21,249,060	22,370,528
Deferred inflows of resources	48,075	-	41,174	-	89,249	-
<b>Net Position</b>						
Invested in capital assets - net of related debt	5,024,042	3,919,391	5,677,067	5,909,845	10,701,109	9,829,236
Restricted	1,281,686	2,617,643	586,773	493,085	1,868,459	3,110,728
Unrestricted	(3,581,088)	(3,152,449)	210,737	(753,929)	(3,370,351)	(3,906,378)
Total net position	<b>\$ 2,724,640</b>	<b>\$ 3,384,585</b>	<b>\$ 6,474,577</b>	<b>\$ 5,649,001</b>	<b>\$ 9,199,217</b>	<b>\$ 9,033,586</b>

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

**Results of Operations:**

For the fiscal year ended June 30, 2017 and 2016, the government-wide results of operations were:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenue:						
Charges for services	\$ 1,067,222	\$ 1,029,921	\$ 11,229,347	\$ 9,837,918	\$ 12,296,569	\$ 10,867,839
Operating grants and contributions	961,201	584,622	-	-	961,201	584,622
Capital grants and contributions	10,750	-	-	-	10,750	-
General revenues:						
Property taxes	935,904	1,061,569	557,400	597,368	1,493,304	1,658,937
State Revenue Sharing	468,339	441,182	129,751	-	598,090	441,182
Investment earnings	8,456	9,814	5,094	16,936	13,550	26,750
Other	112,341	109,458	120,005	177,675	232,346	287,133
Transfers	220,468	302,489	(220,468)	(302,489)	-	-
Total revenues	3,784,681	3,539,055	11,821,129	10,327,408	15,605,810	13,866,463
<b>Expenses</b>						
General government	817,794	987,088	-	-	817,794	987,088
Public safety	1,518,835	1,725,830	-	-	1,518,835	1,725,830
Public works	1,374,122	1,034,092	10,995,553	9,669,469	12,369,675	10,703,561
Community and economic development	41,849	117,074	-	-	41,849	117,074
Health and welfare	12,795	15,593	-	-	12,795	15,593
Recreation and culture	586,283	474,473	-	-	586,283	474,473
Interest on long-term debt	92,948	77,766	-	-	92,948	77,766
Total expenses	4,444,626	4,431,916	10,995,553	9,669,469	15,440,179	14,101,385
Change in net position	(659,945)	(892,861)	825,576	657,939	165,631	(234,922)
Net position, beginning of year	3,384,585	4,277,446	5,649,001	4,991,062	9,033,586	9,268,508
Net position, end of year	<u>\$ 2,724,640</u>	<u>\$ 3,384,585</u>	<u>\$ 6,474,577</u>	<u>\$ 5,649,001</u>	<u>\$ 9,199,217</u>	<u>\$ 9,033,586</u>

**Analysis of Results of Operations:**

During fiscal year ended June 30, 2017, the City's net position increased by \$165,631. Several factors which contributed to this decrease are discussed in the following sections.

**A. Governmental Activities Operating Results**

The City's expenses from governmental activities operations exceeded revenues by \$659,945 for the fiscal year ended June 30, 2017. Total revenues increased \$244,625, or approximately 6.9%. Total expenses increased by \$11,709, or approximately 0.26%.

**B. Business-type Activities Operating Results**

The City's revenues from business-type activities operations exceeded expenses by \$825,576 for the fiscal year ended June 30, 2017. Total revenues increased \$1,493,721, or approximately 14.46%. Total expenses increased by \$1,326,084, or approximately 13.71%.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

**C. Financial Analysis of the Government's Funds**

As noted earlier, the City of Eaton Rapids 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-terms inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,834,504, an decrease of \$1,439,986 from the prior year. Approximately 24% of this, \$467,944, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate that it is not available for new spending because it has already been restricted or obligated to pay for specific debt services or for a variety of other purposes.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was \$467,944. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance at June 30, 2017, represents 16.61% of the total General Fund expenditures and other financing uses.

During the fiscal year ended June 30, 2017 the fund balance in the City's General Fund decreased by \$124,524.

Budgetary-basis revenues and other financing sources for the General Fund were amended throughout the year with the final amended budget increasing \$423,264 from the originally adopted budget. Actual revenues and other financing sources ended the year \$82,087 less than budgeted. Expenditures and other financing uses were increased by \$331,128 during the year and came in \$140,136 over the amended budget.

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

Unrestricted net position of the Utility Fund at the end of the year amounted to 210,737. The most recent fiscal year's activities increased the net position of the Utility Fund by \$825,576.

**D. Long-Term Debt Activities**

As of June 30, 2017, the City had total outstanding debt for governmental activities (including compensated absences) of \$3,207,340. For business-type activities, the outstanding debt (including compensated absences) was \$5,322,974 as of June 30, 2017. For component units, the outstanding debt was \$2,795,000 as of June 30, 2017.

The City has accumulated a long-term liability for absences that have been earned by employees but not yet redeemed. The balance of compensated absences as of June 30, 2017 is \$146,122.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

The City made principal payments on long-term debt obligations that reduced the amount of the City's long-term liabilities as follows:

	Balance July 1, 2016	Change	Balance June 30, 2017
<b>PRIMARY GOVERNMENT</b>			
Governmental Activities			
Bonds, leases, and contracts	\$ 3,534,026	\$ (431,940)	\$ 3,102,086
Compensated absences	74,491	30,763	105,254
	3,608,517	(401,177)	3,207,340
Business Type Activities			
Bonds and leases	6,100,393	(818,287)	5,282,106
Compensated absences	57,578	(16,710)	40,868
	6,157,971	(834,997)	5,322,974
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>9,766,488</b>	<b>(1,236,174)</b>	<b>8,530,314</b>
<b>COMPONENT UNITS</b>			
Bonds	2,805,000	(10,000)	2,795,000
<b>TOTAL REPORTING ENTITY</b>	<b>\$ 12,571,488</b>	<b>\$ (1,236,174)</b>	<b>\$ 11,325,314</b>

Additional information about the City's long-term debt can be found in Note G to the financial statements.

**E. Net Investment in Capital Assets**

At the end of the year, the City had invested \$8,126,128 and \$10,959,173 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$476,561 for the governmental activities and \$1,051,065 for the business-type activities.

The following chart provides more detail on these capital assets.

	Governmental Activities	Business-Type Activities	Component Units	Total
Land and construction in progress	\$ 902,077	\$ -	\$ 1,291,623	\$ 2,193,700
Buildings and improvements, net	2,490,752	-	-	2,490,752
Land improvements, net	815,478	-	1,224,036	2,039,514
Vehicles, net	618,551	-	-	618,551
Machinery, equipment and furniture, net	175,635	-	-	175,635
Books, net	14,557	-	-	14,557
Infrastructure, net	3,109,078	10,959,173	402,056	14,470,307
<b>Capital assets, net</b>	<b>\$ 8,126,128</b>	<b>\$ 10,959,173</b>	<b>\$ 2,917,715</b>	<b>\$ 22,003,016</b>

Additional information about the City's capital assets can be found in Note F to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

**Economic Factors and Next Year's Budgets and Rates**

There are several economic factors that will challenge the City in the next several years. These include state revenue sharing cuts, health insurance increases, pension costs and declining assessed property tax values. These factors were considered in the preparation of the City's fiscal year 2017-2018 budgets. In addition, the City Council is currently monitoring, and will evaluate and respond as necessary, to various upcoming State legislation regarding pension plans, employer provided health care and other changes.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the City's finances. If you have questions about this report or need additional information, contact Marrie Jo Carr, Treasurer, City of Eaton Rapids, 200 South Main Street, Eaton Rapids, Michigan 48827.

## **BASIC FINANCIAL STATEMENTS**

City of Eaton Rapids

STATEMENT OF NET POSITION

June 30, 2017

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
<b>ASSETS</b>				
Current assets				
Cash and investments	\$ 2,789,766	\$ 4,456,003	\$ 7,245,769	\$ 2,164,623
Receivables				
Accounts	657	1,023,067	1,023,724	60
Interest	-	-	-0-	-
Note	-	9,613	9,613	-
Due from other governmental units	206,171	-	206,171	-
Prepays	30,697	428,363	459,060	1,176
Inventories	-	373,958	373,958	-
Total current assets	3,027,291	6,291,004	9,318,295	2,165,859
Noncurrent assets				
Cash and investments - restricted	-	945,479	945,479	-
Internal balances	(140,000)	140,000	-0-	-
Capital assets not being depreciated	902,077	-	902,077	1,291,623
Capital assets, net of accumulated depreciation	7,224,051	10,959,173	18,183,224	1,626,092
Total noncurrent assets	7,986,128	12,044,652	20,030,780	2,917,715
<b>TOTAL ASSETS</b>	11,013,419	18,335,656	29,349,075	5,083,574
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charges on refunding	85,539	-	85,539	150,012
Deferred outflows of resources related to pensions	594,100	508,812	1,102,912	17,820
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	679,639	508,812	1,188,451	167,832
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	114,438	8,017	122,455	330
Accrued liabilities	21,476	12,881	34,357	758
Accrued interest payable	27,073	27,998	55,071	6,145
Current portion of compensated absences	105,254	40,868	146,122	-
Current portion of long-term debt	433,389	620,000	1,053,389	225,000
Current portion of maintenance contract payable	-	133,760	133,760	-
Total current liabilities	701,630	843,524	1,545,154	232,233
Noncurrent liabilities				
Customer deposits	-	153,207	153,207	-
Noncurrent portion of long-term debt	2,668,697	4,662,106	7,330,803	2,570,000
Noncurrent portion of maintenance contract payable	-	66,880	66,880	-
Net pension liability	3,183,916	2,726,839	5,910,755	95,499
Net other post-employment benefit obligation	2,366,100	3,876,161	6,242,261	125,582
Total noncurrent liabilities	8,218,713	11,485,193	19,703,906	2,791,081
<b>TOTAL LIABILITIES</b>	8,920,343	12,328,717	21,249,060	3,023,314
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	48,075	41,174	89,249	1,442
<b>NET POSITION</b>				
Net investment in capital assets	5,024,042	5,677,067	10,701,109	122,715
Restricted				
Bond retirement	-	190,292	190,292	-
Electric utility	-	396,481	396,481	-
Highways and streets	1,137,287	-	1,137,287	-
Cemetery perpetual care	92,459	-	92,459	-
Friends of the island	35,215	-	35,215	-
Dog park	55	-	55	-
Housing services	16,670	-	16,670	-
Unrestricted	(3,581,088)	210,737	(3,370,351)	2,103,935
<b>TOTAL NET POSITION</b>	<b>\$ 2,724,640</b>	<b>\$ 6,474,577</b>	<b>\$ 9,199,217</b>	<b>\$ 2,226,650</b>

See accompanying notes to financial statements.

City of Eaton Rapids

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 817,794	\$ 100,368	\$ 209,649	\$ -	\$ (507,777)	\$ -	\$ (507,777)	\$ -
Public safety	1,518,835	96,052	-	-	(1,422,783)	-	(1,422,783)	-
Public works	1,374,122	836,520	662,117	10,750	135,265	-	135,265	-
Community and economic development	41,849	-	13,500	-	(28,349)	-	(28,349)	-
Health and welfare	12,795	-	-	-	(12,795)	-	(12,795)	-
Recreation and culture	586,283	34,282	75,935	-	(476,066)	-	(476,066)	-
Interest on long-term debt	92,948	-	-	-	(92,948)	-	(92,948)	-
<b>Total governmental activities</b>	<b>4,444,626</b>	<b>1,067,222</b>	<b>961,201</b>	<b>10,750</b>	<b>(2,405,453)</b>	<b>-0-</b>	<b>(2,405,453)</b>	<b>-0-</b>
<b>Business-type activities</b>								
Electric	7,993,858	9,263,725	-	-	-	1,269,867	1,269,867	-
Water	1,204,665	891,878	-	-	-	(312,787)	(312,787)	-
Sewage	1,797,030	1,073,744	-	-	-	(723,286)	(723,286)	-
<b>Total business-type activities</b>	<b>10,995,553</b>	<b>11,229,347</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>233,794</b>	<b>233,794</b>	<b>-0-</b>
<b>Total primary government</b>	<b>\$ 15,440,179</b>	<b>\$ 12,296,569</b>	<b>\$ 961,201</b>	<b>\$ 10,750</b>	<b>(2,405,453)</b>	<b>233,794</b>	<b>(2,171,659)</b>	<b>-0-</b>
<b>Component units</b>								
LDFA Island Industrial Park	\$ 546,327	\$ 5,050	\$ -	\$ -	-	-	-0-	(541,277)
TIFA I DDA	84,319	-	-	-	-	-	-0-	(84,319)
<b>Total component units</b>	<b>\$ 630,646</b>	<b>\$ 5,050</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>(625,596)</b>
<b>General revenues</b>								
Property taxes					935,904	557,400	1,493,304	295,054
Intergovernmental					-	129,751	129,751	-
State shared revenue					468,339	-	468,339	-
Investment earnings					8,456	5,094	13,550	1,107
Other					112,341	120,005	232,346	2,256
Transfers					220,468	(220,468)	-0-	-
<b>Total general revenues and transfers</b>					<b>1,745,508</b>	<b>591,782</b>	<b>2,337,290</b>	<b>298,417</b>
<b>Change in net position</b>					<b>(659,945)</b>	<b>825,576</b>	<b>165,631</b>	<b>(327,179)</b>
<b>Net position, beginning of the year</b>					<b>3,384,585</b>	<b>5,649,001</b>	<b>9,033,586</b>	<b>2,553,829</b>
<b>Net position, end of the year</b>					<b>\$ 2,724,640</b>	<b>\$ 6,474,577</b>	<b>\$ 9,199,217</b>	<b>\$ 2,226,650</b>

See accompanying notes to financial statements.

City of Eaton Rapids

Governmental Funds

BALANCE SHEET

June 30, 2017

	General Fund	Eaton County Road Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and investments	\$ 375,263	\$ 680,703	\$ 816,927	\$ 1,872,893
Accounts receivables	361	-	296	657
Due from other governmental units	118,637	-	87,534	206,171
Prepays	27,126	-	3,571	30,697
<b>TOTAL ASSETS</b>	<b>\$ 521,387</b>	<b>\$ 680,703</b>	<b>\$ 908,328</b>	<b>\$ 2,110,418</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 7,352	\$ -	\$ 107,086	\$ 114,438
Accrued wages payable	14,036	-	2,511	16,547
Accrued liabilities	4,929	-	-	4,929
Advance from other funds	-	-	140,000	140,000
<b>TOTAL LIABILITIES</b>	<b>26,317</b>	<b>-0-</b>	<b>249,597</b>	<b>275,914</b>
<b>FUND BALANCES</b>				
Nonspendable	27,126	-	3,571	30,697
Restricted	-	680,703	606,503	1,287,206
Committed	-	-	48,657	48,657
Unassigned	467,944	-	-	467,944
<b>TOTAL FUND BALANCES</b>	<b>495,070</b>	<b>680,703</b>	<b>658,731</b>	<b>1,834,504</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 521,387</b>	<b>\$ 680,703</b>	<b>\$ 908,328</b>	<b>\$ 2,110,418</b>

See accompanying notes to financial statements.

City of Eaton Rapids

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

June 30, 2017

**Total fund balances - governmental funds** \$ 1,834,504

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

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

The cost of capital assets is	\$ 14,325,342	
Accumulated depreciation is	<u>(6,199,214)</u>	
Capital assets, net		8,126,128

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the government-wide statement of net position.

Net position of governmental activities		
accounted for in the Internal Service Funds	1,335,086	
Capital assets included in the totals above	(609,562)	
Accrued interest payable included in the total below	4,502	
Long-term debt included in the total below	<u>186,847</u>	
		916,873

Governmental funds report bond issuance costs as a current expenditure, whereas these amounts are deferred and amortized in the Statement of Net Position. These amounts consist of:

Deferred charges on refunding		85,539
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	594,100	
Deferred inflows of resources related to pensions	<u>(48,075)</u>	
		546,025

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Accrued interest payable	(27,073)	
Compensated absences	(105,254)	
Long-term debt	(3,102,086)	
Net pension liability	(3,183,916)	
Net other post-employment benefits obligation	<u>(2,366,100)</u>	
		<u>(8,784,429)</u>

**Net position of governmental activities** \$ 2,724,640

See accompanying notes to financial statements.

City of Eaton Rapids

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2017

	General Fund	Eaton County Road Fund	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Property taxes	\$ 927,415	\$ 164,908	\$ 74,244	\$ 1,166,567
Licenses and permits	783,245	-	66,997	850,242
Intergovernmental				
Federal	-	-	38,450	38,450
State	688,738	-	484,443	1,173,181
Local	10,500	-	4,000	14,500
Charges for services	60,412	-	31,491	91,903
Fines and forfeits	22,196	-	-	22,196
Interest and rentals	84,120	6,044	1,871	92,035
Donations	7,248	-	354	7,602
Reimbursements	11,946	-	-	11,946
Other	89,732	-	27,244	116,976
<b>TOTAL REVENUES</b>	<b>2,685,552</b>	<b>170,952</b>	<b>729,094</b>	<b>3,585,598</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
General government	444,442	-	-	444,442
Public safety	1,245,404	-	74,842	1,320,246
Public works	432,166	978,411	849,345	2,259,922
Community and economic development	37,663	-	-	37,663
Health and welfare	11,519	-	-	11,519
Recreation and culture	366,791	-	139,235	506,026
Other	-	-	5	5
Debt service	-	169,168	330,708	499,876
Capital outlay	13,382	-	-	13,382
<b>TOTAL EXPENDITURES</b>	<b>2,551,367</b>	<b>1,147,579</b>	<b>1,394,135</b>	<b>5,093,081</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>134,185</b>	<b>(976,627)</b>	<b>(665,041)</b>	<b>(1,507,483)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	7,500	-	448,390	455,890
Transfers out	(266,209)	(30,684)	(91,500)	(388,393)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(258,709)</b>	<b>(30,684)</b>	<b>356,890</b>	<b>67,497</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(124,524)</b>	<b>(1,007,311)</b>	<b>(308,151)</b>	<b>(1,439,986)</b>
Fund balances, beginning of year	619,594	1,688,014	966,882	3,274,490
Fund balances, end of year	\$ 495,070	\$ 680,703	\$ 658,731	\$ 1,834,504

See accompanying notes to financial statements.

City of Eaton Rapids

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

Year Ended June 30, 2017

**Net change in fund balances - total governmental funds** **\$ (1,439,986)**

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

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

Capital outlay	\$ 1,149,272	
Depreciation expense	<u>(476,561)</u>	
 Excess of capital outlay over depreciation expense		 672,711

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net position of Internal Service Funds	145,466	
Depreciation expense included in the total above	88,163	
(Decrease) in accrued interest payable included in the total below	(681)	
Debt principal retirement included in the total below	<u>(28,287)</u>	
		204,661

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amount consist of:

Debt principal retirement	431,940	
Amortization of deferred charges	<u>(21,384)</u>	
		410,556

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Decrease) in deferred outflows of resources related to pensions	(360,983)	
(Increase) in deferred inflows of resources related to pensions	(48,075)	
Decrease in accrued interest payable	2,594	
(Increase) in compensated absences	(30,763)	
Decrease in net pension liability	158,948	
(Increase) in net other post-employment benefits obligation	<u>(229,608)</u>	
		<u>(507,887)</u>

**Change in net position of governmental activities** **\$ (659,945)**

City of Eaton Rapids  
Proprietary Funds  
STATEMENT OF NET POSITION  
June 30, 2017

	Business-type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 4,456,003	\$ 916,873
Accounts receivable	1,023,067	-
Note receivable	9,613	-
Prepays and deposits	428,363	-
Inventories	373,958	-
Total current assets	6,291,004	916,873
Noncurrent assets		
Cash and investments - restricted	945,479	-
Advance to other funds	140,000	-
Capital assets, net of accumulated depreciation	10,959,173	609,562
Total noncurrent assets	12,044,652	609,562
<b>TOTAL ASSETS</b>	<b>18,335,656</b>	<b>1,526,435</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	508,812	-
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	8,017	-
Accrued payroll	12,881	-
Accrued interest payable	27,998	4,502
Current portion of compensated absences	40,868	-
Current portion of long-term debt	620,000	29,066
Current portion of maintenance contract payable	133,760	-
Total current liabilities	843,524	33,568
Noncurrent liabilities		
Customer deposits	153,207	-
Noncurrent portion of long-term debt	4,662,106	157,781
Noncurrent portion of maintenance contract payable	66,880	-
Net pension liability	2,726,839	-
Net other post-employment benefits obligation	3,876,161	-
Total noncurrent liabilities	11,485,193	157,781
<b>TOTAL LIABILITIES</b>	<b>12,328,717</b>	<b>191,349</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	41,174	-
<b>NET POSITION</b>		
Net investment in capital assets	5,677,067	422,715
Restricted		
Bond retirement	190,292	-
Electric utility	396,481	-
Unrestricted	210,737	912,371
<b>TOTAL NET POSITION</b>	<b>\$ 6,474,577</b>	<b>\$ 1,335,086</b>

See accompanying notes to financial statements.

City of Eaton Rapids

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	Business-type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
<b>OPERATING REVENUES</b>		
Charges for services	\$ 11,204,282	\$ 725
Fines and forfeitures	25,065	-
Other revenue	120,005	100,450
<b>TOTAL OPERATING REVENUES</b>	<b>11,349,352</b>	<b>101,175</b>
<b>OPERATING EXPENSES</b>		
Personal services	1,030,724	-
Contractual services	317,354	-
Supplies	62,967	20,936
Materials	113,856	-
Utilities	170,464	-
Telephone	12,087	-
Insurance	41,882	-
Maintenance	5,991,382	-
Franchise fees	749,925	-
Benefit payments	1,184,952	-
Other expense	129,622	-
Depreciation	1,051,065	88,163
<b>TOTAL OPERATING EXPENSES</b>	<b>10,856,280</b>	<b>109,099</b>
<b>OPERATING INCOME (LOSS)</b>	<b>493,072</b>	<b>(7,924)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	557,400	-
Intergovernmental	129,751	-
Interest income	5,094	5,661
Interest expense	(139,273)	(5,242)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>552,972</b>	<b>419</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>1,046,044</b>	<b>(7,505)</b>
<b>TRANSFERS</b>		
Transfers in	156,208	152,971
Transfers out	(376,676)	-
<b>TOTAL TRANSFERS</b>	<b>(220,468)</b>	<b>152,971</b>
<b>CHANGE IN NET POSITION</b>	<b>825,576</b>	<b>145,466</b>
Net position, beginning of year	5,649,001	1,189,620
Net position, end of year	<b>\$ 6,474,577</b>	<b>\$ 1,335,086</b>

See accompanying notes to financial statements.

City of Eaton Rapids  
Proprietary Funds  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2017

	Business-type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 11,237,439	\$ -
Cash received from interfund services	-	725
Cash received from miscellaneous	-	100,450
Cash paid to suppliers	(8,284,556)	(20,936)
Cash paid to employees	(1,078,017)	-
	1,874,866	80,239
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in	156,208	152,971
Transfers out	(376,676)	-
	(220,468)	152,971
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Intergovernmental	129,751	-
Property taxes	557,400	-
Principal payments on long-term debt	(818,287)	(28,287)
Interest and fiscal charges	(142,711)	(5,923)
	(273,847)	(34,210)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	28,150	5,661
	1,408,701	204,661
Cash and investments, beginning of year	3,992,781	712,212
Cash and investments, end of year	\$ 5,401,482	\$ 916,873

See accompanying notes to financial statements.

City of Eaton Rapids

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2017

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Utility Fund</u>	<u>Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 493,072	\$ (7,924)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,051,065	88,163
Changes in assets and liabilities:		
Accounts receivable	(110,119)	-
Notes receivable	1,144	-
Prepays	(1,753)	-
Inventories	33,998	-
Deferred outflows of resources related to pensions	220,419	-
Accounts payable	(29,731)	-
Accrued payroll	(30,583)	-
Accrued liabilities	(11,533)	-
Compensated absences	(16,710)	-
Customer deposits	(2,938)	-
Maintenance contract payable	(133,760)	-
Net pension liability	174,475	-
Net other post-employment benefits obligation	196,646	-
Deferred inflows of resources related to pensions	41,174	-
	<u>1,874,866</u>	<u>80,239</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 1,874,866</u>	 <u>\$ 80,239</u>

City of Eaton Rapids

Fiduciary Fund

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2017

	<u>Agency Fund</u>
ASSETS	
Cash and investments	<u>\$ 13,613</u>
LIABILITIES	
Due to local units	<u>\$ 13,613</u>

City of Eaton Rapids

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2017

	LDFA Island Industrial Park	TIFA I Downtown Development Authority	Total
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 1,818,874	\$ 345,749	\$ 2,164,623
Accounts receivable	-	60	60
Prepays	1,176	-	1,176
Total current assets	1,820,050	345,809	2,165,859
Noncurrent assets			
Capital assets not being depreciated	777,493	514,130	1,291,623
Capital assets, net of accumulated depreciation	1,224,036	402,056	1,626,092
Total noncurrent assets	2,001,529	916,186	2,917,715
<b>TOTAL ASSETS</b>	<b>3,821,579</b>	<b>1,261,995</b>	<b>5,083,574</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on refunding	150,012	-	150,012
Deferred outflows of resources related to pensions	17,820	-	17,820
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>167,832</b>	<b>-0-</b>	<b>167,832</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	200	130	330
Accrued wages	758	-	758
Accrued interest payable	4,202	1,943	6,145
Current portion of long-term debt	195,000	30,000	225,000
Total current liabilities	200,160	32,073	232,233
Noncurrent liabilities			
Noncurrent portion of long-term debt	2,110,000	460,000	2,570,000
Net pension liability	95,499	-	95,499
Net other post-employment benefit obligation	125,582	-	125,582
Total noncurrent liabilities	2,331,081	460,000	2,791,081
<b>TOTAL LIABILITIES</b>	<b>2,531,241</b>	<b>492,073</b>	<b>3,023,314</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	1,442	-	1,442
<b>NET POSITION</b>			
Net investment in capital assets	(303,471)	426,186	122,715
Unrestricted	1,760,199	343,736	2,103,935
<b>TOTAL NET POSITION</b>	<b>\$ 1,456,728</b>	<b>\$ 769,922</b>	<b>\$ 2,226,650</b>

See accompanying notes to financial statements.

City of Eaton Rapids

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
			L DFA Island Industrial Park	TIFA I Downtown Development Authority	Total
Governmental activities					
L DFA Island Industrial Park	\$ 546,327	\$ 5,050	\$ (541,277)	\$ -	\$ (541,277)
TIFA I Downtown Development Authority	84,319	-	-	(84,319)	(84,319)
<b>TOTALS</b>	<b>\$ 630,646</b>	<b>\$ 5,050</b>	(541,277)	(84,319)	(625,596)
General revenues					
Property taxes			187,881	107,173	295,054
Investment earnings			-	1,107	1,107
Other			431	1,825	2,256
Total general revenues			188,312	110,105	298,417
Change in net position			(352,965)	25,786	(327,179)
Net position, beginning of the year			1,809,693	744,136	2,553,829
Net position, end of the year			\$ 1,456,728	\$ 769,922	\$ 2,226,650

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and streets, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general administrative services.

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Discretely Presented Component Units

The TIFA I Downtown Development Authority and the LDFA Island Industrial Park (component units) are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between these entities and the City is such that exclusion of these entities would render the financial statements misleading or incomplete.

The governing bodies of the TIFA I Downtown Development Authority and the LDFA Island Industrial Park are appointed by the City Council, the budgets are subject to the approval of the City Council, the City temporarily relinquishes part of its tax base to the entities (tax increment revenues), and the City has pledged its full faith and credit toward payment of the entities' debt.

3. Blended Component Unit

The City council established the City of Eaton Rapids Building Authority under State law. The three-member Authority Board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for purposes of the City.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements, but interfund services provided and used are not eliminated in the process of consolidation. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

4. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Eaton County Road Fund is a Capital Project Fund used to account for restricted financial resources collected for the repair and maintenance of roads in Eaton County.

The City reports the following major enterprise fund:

- a. The Utility Fund is used to account for activities and operations of the electric plant, water, and sewage treatment plant. These activities are financed primarily through property taxes and user charges.

Additionally, the City reports internal service funds to account for the management of a motor vehicles pool and employee benefits services provided to departments on a cost reimbursement basis.

The City also reports fiduciary funds to account for assets held by the City as agent (Agency Fund) for others. Fiduciary Funds are not included in the government-wide financial statements.

5. Measurement Focus

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

6. Basis of Accounting

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

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

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

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

If/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.

7. Budgets and Budgetary Accounting

The General and any major special revenue funds' budgets shown as required supplementary information was prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers' comments by the end of May.
- c. No later than the third Monday in June, the budget is legally enacted through passage of a resolution.
- d. The City Manager is authorized to make budgetary transfers between the line items of departments established through these budget, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. All annual appropriations lapse at year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

7. Budgets and Budgetary Accounting - continued

The General Fund budget is adopted on an activity level basis and the Special Revenue Funds' budgets are adopted on a total fund level.

8. Cash and Investments

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net position/balance sheet as "cash and investments".

The City's cash and investments consist of checking and savings accounts, cash on hand and certificates of deposit.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are stated at cost, which approximates market value.

9. Restricted Cash and Investments

Certain revenues and resources in the proprietary fund types are classified as restricted on the balance sheet because their use is limited. The restricted cash and investments of the City reported in the Utility Fund represent customer deposits and accumulated funds required for the applicable bond covenants are held in a separate account.

10. Receivables and Due from other Governments

Receivables consist of amounts due from the State and Federal Government for various payments and grants and receivables for charges for services provided to local governmental units, accounts receivable related to charges for services, interest receivable, and other amounts owed to the City at year-end.

11. Property Tax

Property taxes are levied by the City on July 1 and are payable without penalty through August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy taxes up to 8.5538 mills (\$8.55 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2017, the City levied 8.5538 mills per \$1,000 of taxable valuation for general governmental services and 0.8551 mills for parks and recreation. An additional 4.7114 mills was also levied for wastewater improvements. The total taxable value for the 2016 levy for the property within the City was \$114,390,484.

12. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

12. Capital Assets - continued

PRIMARY GOVERNMENT AND COMPONENT UNITS - CONTINUED

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

Land improvements	10 - 20 years
Buildings and improvements	10 - 40 years
Machinery, equipment, and furniture	5 - 20 years
Books	5 years
Vehicles	3 - 10 years
Utility Systems	10 - 40 years
Infrastructure	20 - 25 years

13. Long-Term Obligations

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

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Compensated Absences

The cost of the compensated absences, including related payroll taxes, is recorded in the government-wide financial statements for governmental activities. For proprietary funds, it is recorded as a liability and expensed as incurred.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of 3 days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

15. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports deferred outflows of resources for the deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

15. Deferred Outflows/Inflows of Resources - continued

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

16. Inventories

Inventories in the enterprise fund consists of water, sewer, and electric system supplies which are stated at the lower of cost or market on a first-in/first-out basis.

17. Net Pension Liability and Net Other Post-Employment Benefits Obligation

The net pension liability and net other post-employment benefits obligation are deemed to be noncurrent liabilities and are recognized on the statement of net position.

18. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

19. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

20. Restrictions of net position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by an outside source which precludes their use for unrestricted purposes.

21. Comparative Data

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

**NOTE B: CASH AND INVESTMENTS**

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

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE B: CASH AND INVESTMENTS - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2017, the carrying amounts of the City's deposits were \$10,368,834 and the bank balance was \$10,393,316, of which \$3,158,582 was covered by federal depository insurance. The balance of \$7,234,734 was uninsured and uncollateralized. The City had \$650 of imprest cash on hand.

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

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2017, the City did not have any investments that would require such a rating.

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 on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of Credit Risk

The City will minimize 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 "Authorized and Suitable Investments" section of the investment policy; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the "Qualified Institutions" section of the investment policy; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE B: CASH AND INVESTMENTS - CONTINUED**

Concentration of Credit Risk - continued

As of June 30, 2017, the cash and investments referred to above have been reported in both the cash and investments captions in the basic financial statements in the following categories:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and investments	\$ 7,245,769	\$ 2,164,623	\$ 13,613	\$ 9,424,005
Cash and investments - restricted	945,479	-	-	945,479
	<u>\$ 8,191,248</u>	<u>\$ 2,164,623</u>	<u>\$ 13,613</u>	<u>\$ 10,369,484</u>

**NOTE C: CASH AND INVESTMENTS - RESTRICTED**

The following summarizes the restricted cash and investments as of June 30, 2017:

	<u>Utility Fund</u>
Customer deposits	\$ 153,207
Bond reserve	<u>792,272</u>
	<u>\$ 945,479</u>

**NOTE D: INTERNAL BALANCES**

The following schedule details advances receivable and payable between funds as of June 30, 2017:

Advance to nonmajor governmental fund from:	
Utility Fund	<u>\$ 140,000</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE E: INTERFUND TRANSFERS**

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

Transfer to General Fund from:	
Nonmajor governmental funds	<u>\$ 7,500</u>
Transfer to Utility Fund from:	
General Fund	<u>\$ 156,208</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE E: INTERFUND TRANSFERS - CONTINUED**

Transfers to nonmajor governmental funds from:	
General Fund	\$ 42,030
Eaton County Road Fund	30,684
Utility Fund	291,676
Nonmajor governmental funds	<u>84,000</u>
	<u>\$ 448,390</u>
Transfer to Internal Service fund from:	
General Fund	\$ 67,971
Utility Fund	<u>85,000</u>
	<u>\$ 152,971</u>

The transfers to the nonmajor governmental funds (Building Authority), and Internal Service (Motor Pool) fund were for debt payments. The other transfers made during the year to various funds were for the purposes of funding specific projects within certain funds or to cover operational costs reflected in a particular fund.

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

**Primary Government**

	Balance <u>July 1, 2016</u>	Additions/ <u>Reclassifications</u>	Deletions/ <u>Reclassifications</u>	Balance <u>June 30, 2017</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 902,077	\$ -	\$ -	\$ 902,077
Construction in progress	<u>169,690</u>	<u>997,334</u>	<u>(1,167,024)</u>	<u>-0-</u>
Total capital assets not being depreciated	1,071,767	997,334	(1,167,024)	902,077
Capital assets being depreciated				
Buildings and improvements	5,300,969	-	-	5,300,969
Land improvements	1,048,225	301,011	-	1,349,236
Vehicles	1,649,232	9,117	(52,636)	1,605,713
Machinery, equipment, and furniture	744,764	-	-	744,764
Books	189,287	-	-	189,287
Infrastructure	<u>3,224,462</u>	<u>1,008,834</u>	<u>-</u>	<u>4,233,296</u>
Subtotal	12,156,939	1,318,962	(52,636)	13,423,265

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Primary Government - Continued**

	Balance July 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2017
Governmental activities - continued				
Less accumulated depreciation for:				
Buildings and improvements	\$ (2,714,760)	\$ (95,457)	\$ -	\$ (2,810,217)
Land improvements	(483,450)	(50,308)	-	(533,758)
Vehicles	(951,508)	(88,290)	52,636	(987,162)
Machinery, equipment, and furniture	(549,225)	(19,904)	-	(569,129)
Books	(164,616)	(10,114)	-	(174,730)
Infrastructure	(911,730)	(212,488)	-	(1,124,218)
Subtotal	(5,775,289)	(476,561)	52,636	(6,199,214)
Net capital assets being depreciated	6,381,650	842,401	-0-	7,224,051
Capital assets, net	<u>\$ 7,453,417</u>	<u>\$ 1,839,735</u>	<u>\$ (1,167,024)</u>	<u>\$ 8,126,128</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 281,512
Public safety	125,149
Public works	44,802
Recreation and culture	25,098
Total depreciation expense	<u>\$ 476,561</u>

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Business-type activities				
Capital assets being depreciated				
Water	\$ 8,939,291	\$ -	\$ -	\$ 8,939,291
Electric	8,506,310	-	-	8,506,310
Sewage	14,685,184	-	-	14,685,184
Subtotal	32,130,785	-0-	-0-	32,130,785
Less accumulated depreciation for:				
Water	(4,633,216)	(260,762)	-	(4,893,978)
Electric	(6,487,358)	(280,581)	-	(6,767,939)
Sewage	(8,999,973)	(509,722)	-	(9,509,695)
Subtotal	(20,120,547)	(1,051,065)	-0-	(21,171,612)
Capital assets, net	<u>\$ 12,010,238</u>	<u>\$ (1,051,065)</u>	<u>\$ -0-</u>	<u>\$ 10,959,173</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Units**

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Component Units				
Capital assets not being depreciated				
Land	\$ 1,291,623	\$ -	\$ -	\$ 1,291,623
Capital assets being depreciated				
Land improvements	1,530,045	-	-	1,530,045
Infrastructure	417,359	-	-	417,359
Subtotal	1,947,404	-0-	-0-	1,947,404
Less accumulated depreciation for:				
Land improvements	(229,506)	(76,503)	-	(306,009)
Infrastructure	(6,956)	(8,347)	-	(15,303)
Subtotal	(236,462)	(84,850)	-0-	(321,312)
Net capital assets being depreciated	1,710,942	(84,850)	-0-	1,626,092
Capital assets, net	<u>\$ 3,002,565</u>	<u>\$ (84,850)</u>	<u>\$ -0-</u>	<u>\$ 2,917,715</u>

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
2009 Capital improvement bonds	\$ 160,000	\$ -	\$ (15,000)	\$ 145,000	\$ 20,000
2009 Building authority refunding bonds	1,485,000	-	(230,000)	1,255,000	225,000
2016 General obligation bonds	1,600,000	-	(145,000)	1,455,000	145,000
Capital lease - Fire Truck	215,134	-	(28,287)	186,847	29,066
Land contract - 114 Mill Street	73,892	-	(13,653)	60,239	14,323
Compensated absences	74,491	132,208	(101,445)	105,254	105,254
	3,608,517	132,208	(533,385)	3,207,340	538,643
Business-type Activities					
2009 Capital improvement bonds	300,000	-	(35,000)	265,000	40,000
1999 Drinking water bonds	349,806	-	(85,000)	264,806	90,000
2004 WWTP improvement bonds	5,232,300	-	(480,000)	4,752,300	490,000
Capital lease - water meters	218,287	-	(218,287)	-0-	-
Compensated absences	57,578	42,472	(59,182)	40,868	40,868
	6,157,971	42,472	(877,469)	5,322,974	660,868
TOTAL PRIMARY GOVERNMENT	9,766,488	174,680	(1,410,854)	8,530,314	1,199,511

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE G: LONG-TERM DEBT - CONTINUED**

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
COMPONENT UNITS					
2009 Capital improvement bonds - DDA	\$ 520,000	\$ -	\$ (30,000)	\$ 490,000	\$ 30,000
2008 Tax increment bonds - LDFA	2,285,000	-	(2,120,000)	165,000	165,000
2016 Tax increment refunding bonds - LDFA	-	2,155,000	(15,000)	2,140,000	30,000
TOTAL COMPONENT UNIT	2,805,000	2,155,000	(2,165,000)	2,795,000	225,000
TOTAL REPORTING ENTITY	\$ 12,571,488	\$ 2,329,680	\$ (3,575,854)	\$ 11,325,314	\$ 1,424,511

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

PRIMARY GOVERNMENT

General Obligation Bonds

\$265,000 Capital Improvement Bonds dated September 15, 2009, due in annual installments of \$20,000 to \$25,000 through June 2024 with interest ranging from 4.00 to 5.00 percent, payable semi-annually. \$ 145,000

\$2,645,000 Building Authority Refunding Bonds dated December 23, 2009, due in annual installments of \$225,000 to \$270,000 through March 2022, with interest ranging from 4.00 to 4.30 percent, payable semi-annually. 1,255,000

\$555,000 Capital Improvement Bonds dated November 20, 2008, due in annual installments of \$40,000 to \$50,000 through June 2022, with interest ranging from 4.75 to 5.00 percent, payable semi-annually. 265,000

\$1,600,000 General Obligation Bonds dated June 30, 2016, due in annual installments of \$145,000 to \$180,000 through June 2026, with interest ranging from 1.40 to 2.25 percent, payable annually. 1,455,000

\$ 3,120,000

Capital Leases

\$298,101 capital lease entered into December 14, 2012, due in annual installments of \$34,210 through August 2022, including interest at 2.75 percent. \$ 186,847

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE G: LONG-TERM DEBT - CONTINUED**

PRIMARY GOVERNMENT - CONTINUED

Revenue Bonds

\$1,494,806 Drinking Water Bonds dated September 30, 1999, due in annual installments of \$84,806 to \$90,000 through April 2020, with an interest rate of 2.50 percent, payable semi-annually.	\$ 264,806
\$9,545,000 WWTP Improvement Bonds dated September 23, 2004, due in annual installments of \$490,000 to \$565,000 through April 2026, with interest of 2.125 percent, payable semi-annually.	<u>4,752,300</u>
	<u>\$ 5,017,106</u>

Land Contract

\$75,000 land contract entered into May 5, 2016, due in monthly installments of \$1,408 through May 2021, including interest at 4.80 percent.	<u>\$ 60,239</u>
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Compensated Absences

In accordance with the City's personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused sick pay under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amount to \$105,254 for governmental activities and \$40,868 for business-type activities. The entire liability has been recorded as current in both the governmental activities and the business-type activities.

COMPONENT UNITS

General Obligation Bonds

\$710,000 Capital Improvement Bonds dated September 15, 2009, due in annual installments of \$30,000 to \$55,000 through June 2029, with interest ranging from 4.00 to 5.00 percent, payable semi-annually.	\$ 490,000
\$2,945,000 Local Development Finance Authority Bonds dated November 20, 2008 due in an annual installment of \$165,000 in June 2018, with interest ranging from 4.50 to 5.00 percent, payable semi-annually.	165,000
\$2,155,000 Local Development Finance Authority Bond dated October 24, 2016, due in annual instalments of \$30,000 to \$220,000 through June 2028, with interest ranging from 1.60 to 2.45 percent, payable semi-annually.	<u>2,140,000</u>
	<u>\$ 2,795,000</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE G: LONG-TERM DEBT - CONTINUED**

Advanced Refunding - Current

On October 24, 2016, the City defeased the portion of the 2008 Tax Increment Bonds which were due and payable June 1, 2019 through June 1, 2028. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The City issued 2016 Tax Increment Refunding Bonds in the amount of \$2,155,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2017, bonds due and payable June 1, 2019 through June 1, 2028, for the 2008 Tax Increment Bonds in the amount of \$1,995,000 are considered defeased.

As a result of the advance refunding, the City decreased its total debt service requirements by \$220,253, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$192,924.

Advance Refunding - Prior

On December 23, 2009, the City defeased a portion of the 2002 Building Authority Bonds which were due and payable March 1, 2011 through March 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued Building Authority 2009 Refunding Bonds in the amount of \$2,645,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2017, bonds due and payable March 1, 2018 through March 1, 2022 for the 2002 Building Authority Bonds in the amount of \$1,275,000 are considered defeased.

The annual requirements to pay the debt principal and interest outstanding for the Bonds, Notes, and other obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 390,000	\$ 85,454	\$ 620,000	\$ 120,756	\$ 225,000	\$ 73,744
2019	420,000	73,624	630,000	106,194	225,000	65,052
2020	420,000	60,574	639,806	91,318	235,000	60,732
2021	445,000	47,068	565,000	76,112	245,000	55,722
2022	445,000	31,962	575,000	62,812	245,000	227,700
2023-2027	735,000	41,096	2,252,300	119,994	1,295,000	1,135,340
2028-2029	-	-	-	-	325,000	228,000
	<u>\$ 2,855,000</u>	<u>\$ 339,778</u>	<u>\$ 5,282,106</u>	<u>\$ 577,186</u>	<u>\$ 2,795,000</u>	<u>\$ 1,846,290</u>

Year Ended June 30,	Land Contract - Governmental Activities		Capital Lease - Governmental Activities	
	Principal	Interest	Principal	Interest
2018	\$ 14,323	\$ 2,579	\$ 29,066	\$ 5,145
2019	15,025	1,876	29,866	4,344
2020	15,763	1,139	30,688	3,522
2021	15,128	365	31,533	2,677
2022	-	-	32,401	1,809
2023-2026	-	-	33,293	917
	<u>\$ 60,239</u>	<u>\$ 5,959</u>	<u>\$ 186,847</u>	<u>\$ 18,414</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE H: MAINTENANCE CONTRACT**

The City has entered in to a non-cancelable maintenance contract for the City's water towers. The contract states that if the contract is canceled prior to the payment of the sixth installment the balance owed on the first six installments will be due within thirty days of cancelation. The value of the remaining payments has been recorded as a liability in the City's Utility Fund.

Future minimum payments under this contract are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 133,760
2019	<u>66,880</u>
	<u>\$ 200,640</u>

**NOTE I: RETIREMENT PLAN**

Plan Description

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

Summary of Significant Accounting Policies

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

Benefits Provided

Benefits provided include plans with multipliers ranging from 1.50% to 2.50% with an 80% or no max, depending on division.

Vesting periods range from 6 to 10 years.

Normal retirement age is 60 with unreduced early retirement at 50 to 55, with 25 years of service, depending on division. Reduced early retirement age is 50 with 25 years of service or 55 with 15 years of service, depending on division.

Final average compensation is calculated based on 3 to 5 years. Member contributions are 0.00% to 6.25% depending on division.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE I: RETIREMENT PLAN - CONTINUED**

At the December 31, 2016, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>34</u>
	<u><u>80</u></u>

Contributions

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

Employer contributions range from 1.84% to 11.64% based on annual payroll for open divisions. Three divisions that are closed to new employees had a total annual employer contribution of \$352,176.

Net Pension Liability

The net pension liability reported at June 30, 2017, was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016, total pension liability was determined by an actuarial valuation performed as of that date.

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

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at December 31, 2015	\$ 14,275,777	\$ 8,124,021	\$ 6,151,756
Changes for the Year			
Service cost	204,593	-	204,593
Interest on total pension liability	1,113,118	-	1,113,118
Difference between expected and actual experience	(120,921)	-	(120,921)
Employer contributions	-	380,873	(380,873)
Employee contributions	-	74,369	(74,369)
Net investment income	-	904,943	(904,943)
Benefit payments, including employee refunds	(928,190)	(928,190)	-0-
Administrative expense	-	(17,889)	17,889
Other changes	4	-	4
Net changes	<u>268,604</u>	<u>414,106</u>	<u>(145,502)</u>
Balances as of December 31, 2016	<u>\$ 14,544,381</u>	<u>\$ 8,538,127</u>	<u>\$ 6,006,254</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE I: RETIREMENT PLAN - CONTINUED**

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the employer recognized pension expense of \$1,019,415. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ 228,256	\$ 90,691
Differences in assumptions	336,121	-
Net difference between projected and actual earnings on pension plan investments	323,897	-
Contributions subsequent to the measurement date	<u>232,458</u>	<u>-</u>
Total	<u>\$ 1,120,732</u>	<u>\$ 90,691</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ended June 30, 2018.

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

<u>Year Ending</u>	<u>Pension Expense</u>
2018	\$ 388,468
2019	388,469
2020	75,577
2021	(54,931)

Actuarial Assumptions

The total pension liability in the December 31, 2016, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.75% in the long-term plus a percentage based on age related scale to reflect merit, longevity, and promotional pay increases.

Investment rate of return: 7.75%, net of investment expenses, including inflation.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE I: RETIREMENT PLAN - CONTINUED**

Actuarial Assumptions - continued

The actuarial assumptions used in the valuation were based on the results of the 2009-2013 Five-Year Experience Study, performed in 2015.

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers.

Projected Cash Flows

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected failure benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	55.5%	8.65%
Global Fixed Income	18.5%	3.76%
Real Assets	13.5%	9.72%
Diversifying Strategies	12.5%	7.50%

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the employer's net position liability would be using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	\$ 7,569,389	\$ 6,006,254	\$ 4,687,134

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE J: OTHER POST-EMPLOYMENT BENEFITS**

Plan Description

The City of Eaton Rapids offers post-employment health insurance benefits to all eligible retired employees in accordance with union agreements and/or personnel policies. These benefits are provided by contractual agreement and are paid annually by various funds. The City funds these costs on a pay-as-you-go basis. These amounts are recorded as an expenditure when the fund liability is incurred.

Certain retirees contribute 10-20% of the cost of their insurance until Medicare eligibility age is reached, after which the City pays 100% of the cost for secondary coverage.

Membership in the plan at July 1, 2015, was as follows:

Retirees and Beneficiaries receiving benefits	27
Active plan members	<u>32</u>
	<u><u>59</u></u>

Funding Policy

The City's annual other post-employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer* (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the City.

Funding Progress

For the year ended June 30, 2017, the City has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of June 30, 2016. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

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

Annual required contribution (ARC)	\$ 786,168
Interest on net OPEB obligation	237,388
Adjustment to annual required contribution	<u>(238,170)</u>
Annual OPEB cost	785,386
Contributions made	<u>(352,244)</u>
Change in Net OPEB obligation	433,142
Net OPEB obligation - beginning of year	<u>5,934,701</u>
Net OPEB obligation - end of year	<u><u>\$ 6,367,843</u></u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Funding Progress - continued

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three (3) years, are as follows:

Year Ended June 30,	Annual OPEB Cost	of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 785,386	44.8%	\$ 6,367,843
2016	793,903	40.2%	5,934,701
2015	947,232	26.9%	5,459,992

The current funding progress of the plan as of June 30, 2016, the most recent valuation date, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	10,396,289
Unfunded (UAAL)	10,396,289
Funded ratio	0%
Annual covered payroll	\$ 2,120,812
Ratio of UAAL to covered payroll	490%

Information related to funding progress with multiyear trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits is not presented.

Actuarial Methods and Assumptions

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

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

**NOTE K: CONTINGENT LIABILITIES**

The City continues to monitor and perform annual testing of the City's landfill that has been closed for several years. Michigan Department of Environmental Quality (MDEQ) requires that this maintenance be performed. At this time, it is impossible to predict with any accuracy what, if any, additional remedial work may be required by MDEQ prior to approval for final closure of the landfill.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE K: CONTINGENT LIABILITIES - CONTINUED**

There is legal action pending against the City. Due to the inconclusive nature of the action, it is not possible for Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. For these reasons, no additional liability has been recorded in the financial statements related to this action.

**NOTE L: RISK MANAGEMENT**

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

The City also participates in a State pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. State pool members' limits of coverage are detailed in their policy agreements with the authority. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

**NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS**

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

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

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

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority.

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

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

**Fund Balance Classification Policies and Procedures**

For committed fund balance, the City's highest level of decision-making authority is the City Council. Formal action that is required to be taken to establish a fund balance commitment has not been determined by the City Council.

For assigned fund balance, the City Council has not approved a policy indicating anyone is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the City Council.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED**

The City has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy the City considers restricted amount to have been spent first when expenditure is incurred for which both restricted and unrestricted fund balance is available.

At year ended June 30, 2017, the City had the following fund balance classifications:

	General Fund	Eaton County Road	Nonmajor Governmental Funds	Total
Fund Balances				
Nonspendable				
Prepays	\$ 27,126	\$ -	\$ 3,571	\$ 30,697
Restricted				
Highways and streets	-	680,703	456,584	1,137,287
Housing services	-	-	16,670	16,670
Dog park	-	-	55	55
Debt service	-	-	5,520	5,520
Cemetery perpetual care	-	-	92,459	92,459
Friends of the island	-	-	35,215	35,215
Committed				
Act 302 training	-	-	6,569	6,569
Parks and recreation	-	-	31,479	31,479
Building department	-	-	6,398	6,398
Drug law enforcement	-	-	2,983	2,983
Capital projects	-	-	1,228	1,228
Unassigned	467,944	-	-	467,944
<b>TOTAL FUND BALANCES</b>	<b>\$ 495,070</b>	<b>\$ 680,703</b>	<b>\$ 658,731</b>	<b>\$ 1,834,504</b>

**NOTE N: TAX ABATEMENTS**

Industrial facilitates exemption (IFT)

Municipalities within Eaton County's boundaries such as the City have entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation properties, the taxable values can be frozen.

For the year ended June 30, 2017, the City's property tax revenue for general operations, parks and recreation, and utility fund were reduced under this program by the following:

General operations	\$ 50,409
Parks and recreation	5,039
Utility Fund	<u>27,765</u>
	<u>\$ 83,213</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE O: CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement No. 77, *Tax Abatement Disclosures*, was implemented during the year. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present.

**NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS**

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

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement will increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 868,250	\$ 878,250	\$ 861,660	\$ (16,590)
Penalties and interest	10,000	11,000	11,798	798
Administration fees	60,000	60,000	53,120	(6,880)
Trailer fee	900	900	837	(63)
Total taxes	939,150	950,150	927,415	(22,735)
Licenses and permits				
Licenses	2,000	2,000	430	(1,570)
Franchise fees	779,925	779,925	778,821	(1,104)
Zoning board of appeals	300	300	3,994	3,694
Total licenses and permits	782,225	782,225	783,245	1,020
Intergovernmental				
Local	9,500	10,500	10,500	-0-
Federal	15,000	15,000	-	(15,000)
State aid and sales tax	362,500	692,581	688,738	(3,843)
Total intergovernmental	387,000	718,081	699,238	(18,843)
Charges for services				
Penal fines	50,000	51,195	39,150	(12,045)
Video fees	200	200	150	(50)
Grave openings	23,500	23,500	21,112	(2,388)
Total charges for services	73,700	74,895	60,412	(14,483)
Fines and forfeits	23,800	24,574	22,196	(2,378)
Interest and rents				
Interest	7,500	7,500	631	(6,869)
Rentals	35,050	75,050	83,489	8,439
Total interest and rents	42,550	82,550	84,120	1,570
Other				
Donations	9,750	9,440	7,248	(2,192)
Reimbursements	28,300	28,300	11,946	(16,354)
Miscellaneous	57,900	97,424	89,732	(7,692)
Total other	95,950	135,164	108,926	(26,238)
<b>TOTAL REVENUES</b>	<b>2,344,375</b>	<b>2,767,639</b>	<b>2,685,552</b>	<b>(82,087)</b>

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2017

EXPENDITURES	Budgeted Amounts			Variances with Final Budget Positive (Negative)
	Original	Final	Actual	
Current				
General government				
City council	\$ 18,000	\$ 30,305	\$ 29,480	\$ 825
City manager	16,197	18,084	18,706	(622)
General election	14,275	7,655	7,507	148
Assessor	78,400	122,045	125,498	(3,453)
Treasurer	31,279	23,282	23,010	272
City clerk	35,950	45,875	44,816	1,059
Board of Review	200	420	420	-0-
Building and grounds	18,500	24,755	22,502	2,253
Cemetery	86,455	120,385	108,505	11,880
Other	76,250	70,175	63,998	6,177
Total general government	375,506	462,981	444,442	18,539
Public safety				
Police	970,712	1,004,984	1,024,857	(19,873)
Fire	131,275	143,685	139,908	3,777
Building department	54,150	75,818	80,639	(4,821)
Total public safety	1,156,137	1,224,487	1,245,404	(20,917)
Public works	417,055	429,379	432,166	(2,787)
Community and economic development				
Planning and zoning	50,750	87,000	37,663	49,337
Health and welfare				
Ambulance	12,500	12,500	11,519	981
Recreation and culture				
Library	212,283	229,437	234,348	(4,911)
Other	18,200	99,115	132,443	(33,328)
Total recreation and culture	230,483	328,552	366,791	(38,239)
Capital outlay	23,910	17,910	13,382	4,528
TOTAL EXPENDITURES	2,266,341	2,562,809	2,551,367	11,442
EXCESS OF REVENUES OVER EXPENDITURES	78,034	204,830	134,185	(70,645)

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			Variances with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 7,500	\$ 7,500	\$ 7,500	\$ -0-
Transfers out	(79,971)	(114,631)	(266,209)	(151,578)
	<u>(72,471)</u>	<u>(107,131)</u>	<u>(258,709)</u>	<u>(151,578)</u>
TOTAL OTHER FINANCING SOURCES (USES)				
	<u>(72,471)</u>	<u>(107,131)</u>	<u>(258,709)</u>	<u>(151,578)</u>
NET CHANGE IN FUND BALANCE	5,563	97,699	(124,524)	(222,223)
Fund balance, beginning of year	<u>619,594</u>	<u>619,594</u>	<u>619,594</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 625,157</u>	<u>\$ 717,293</u>	<u>\$ 495,070</u>	<u>\$ (222,223)</u>

City of Eaton Rapids

Defined Benefit Pension Plan

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Last Three Measurement Dates (Ultimately Ten Years will be Displayed)  
 (Amounts were determined as of December 31 of each year)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 183,651	\$ 204,313	\$ 204,593
Interest	996,054	996,015	1,113,118
Difference between expected and actual experience	-	456,514	(120,921)
Changes of assumptions	-	672,241	-
Benefit payments including employee refunds	(761,548)	(864,911)	(928,190)
Other	(1)	31,125	4
	<u>418,156</u>	<u>1,495,297</u>	<u>268,604</u>
Net Change in Total Pension Liability			
Total Pension Liability, beginning	<u>12,362,324</u>	<u>12,780,480</u>	<u>14,275,777</u>
Total Pension Liability, ending	<u>\$ 12,780,480</u>	<u>\$ 14,275,777</u>	<u>\$ 14,544,381</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 386,982	\$ 400,477	\$ 380,873
Contributions - employee	79,309	78,082	74,369
Net investment income	529,900	(127,375)	904,943
Benefit payments including employee refunds	(761,548)	(864,911)	(928,190)
Administrative expense	(19,419)	(18,667)	(17,889)
	<u>215,224</u>	<u>(532,394)</u>	<u>414,106</u>
Net Change in Plan Fiduciary Net Position			
Plan Fiduciary Net Position, beginning	<u>8,441,191</u>	<u>8,656,415</u>	<u>8,124,021</u>
Plan Fiduciary Net Position, ending	<u>\$ 8,656,415</u>	<u>\$ 8,124,021</u>	<u>\$ 8,538,127</u>
City's Net Pension Liability	<u>\$ 4,124,065</u>	<u>\$ 6,151,756</u>	<u>\$ 6,006,254</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	68%	57%	59%
Covered Employee Payroll	\$ 1,750,141	\$ 2,030,058	\$ 1,970,006
City's Net Pension Liability as a percentage of covered employee payroll	236%	303%	305%

City of Eaton Rapids

Defined Benefit Pension Plan

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Three Fiscal Years (Ultimately Ten Fiscal Years will be Displayed)  
 (Amounts were determined as of June 30 of each fiscal year)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contributions	\$ 393,271	\$ 390,978	\$ 424,370
Contributions in relation to the actuarially determined contribution	<u>393,271</u>	<u>390,978</u>	<u>424,370</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered Employee Payroll	\$ 1,961,806	\$ 1,999,071	\$ 2,059,368
Contributions as a percentage of covered employee payroll	20%	20%	21%

City of Eaton Rapids

Post-Employment Health Care Benefits

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
6/30/2016	\$ -	\$ 10,396,289	\$ 10,396,289	0%	\$ 2,120,812	490%
6/30/2013	-	10,129,446	10,129,446	0%	2,407,675	421%
6/30/2010	-	12,919,337	12,919,337	0%	2,500,128	517%

Schedule of Employer Contributions

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 785,386	45%	\$ 6,367,843
2016	793,903	40%	5,934,701
2015	947,232	27%	5,459,992

City of Eaton Rapids

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local government unit not incur expenditures in excess of amounts appropriated.

During the year ended June 30, 2017, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
Current			
General government			
City Manager	\$ 18,084	\$ 18,706	\$ 622
Assessor	122,045	125,498	3,453
Public safety			
Police	1,004,984	1,024,857	19,873
Building department	75,818	80,639	4,821
Public works	429,379	432,166	2,787
Recreation and culture			
Library	229,437	234,348	4,911
Other	99,115	132,443	33,328
Transfers	114,631	266,209	151,578

## **OTHER SUPPLEMENTARY INFORMATION**

City of Eaton Rapids  
 Nonmajor Governmental Funds  
 COMBINING BALANCE SHEET  
 June 30, 2017

	Special		
	Major Street Fund	Local Street Fund	Act 302 Training
<b>ASSETS</b>			
Cash and investments	\$ 39,678	\$ 434,355	\$ 6,273
Accounts receivable	-	-	296
Due from other governmental units	64,973	22,561	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 104,651</b>	<b>\$ 456,916</b>	<b>\$ 6,569</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 104,386	\$ 238	\$ -
Accrued wages payable	265	94	-
Advance from other funds	-	-	-
<b>TOTAL LIABILITIES</b>	<b>104,651</b>	<b>332</b>	<b>-0-</b>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	-	456,584	-
Committed	-	-	6,569
<b>TOTAL FUND BALANCES</b>	<b>-0-</b>	<b>456,584</b>	<b>6,569</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 104,651</b>	<b>\$ 456,916</b>	<b>\$ 6,569</b>

Revenue Funds

Parks and Recreation	Building Department	Drug Law Enforcement	MSHDA CDBG	Dog Park
\$ 175,660	\$ 6,831	\$ 2,983	\$ 16,670	\$ 55
-	-	-	-	-
-	-	-	-	-
291	3,280	-	-	-
<u>\$ 175,951</u>	<u>\$ 10,111</u>	<u>\$ 2,983</u>	<u>\$ 16,670</u>	<u>\$ 55</u>
\$ 2,462	\$ -	\$ -	\$ -	\$ -
1,719	433	-	-	-
140,000	-	-	-	-
144,181	433	-0-	-0-	-0-
291	3,280	-	-	-
-	-	-	16,670	55
31,479	6,398	2,983	-	-
31,770	9,678	2,983	16,670	55
<u>\$ 175,951</u>	<u>\$ 10,111</u>	<u>\$ 2,983</u>	<u>\$ 16,670</u>	<u>\$ 55</u>

City of Eaton Rapids

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2017

	<u>Debt Service</u>	<u>Capital Project</u>
	<u>Building Authority Debt</u>	<u>Capital Project</u>
<b>ASSETS</b>		
Cash and investments	\$ 5,520	\$ 1,228
Accounts receivable	-	-
Due from other governmental units	-	-
Prepays	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 5,520</u>	<u>\$ 1,228</u>
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ -
Accrued wages payable	-	-
Advance from other funds	-	-
	<hr/>	<hr/>
TOTAL LIABILITIES	-0-	-0-
<b>FUND BALANCES</b>		
Nonspendable	-	-
Restricted	5,520	-
Committed	-	1,228
	<hr/>	<hr/>
TOTAL FUND BALANCES	<u>5,520</u>	<u>1,228</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,520</u>	<u>\$ 1,228</u>

Permanent Funds		
Cemetery Perpetual Care	Friends of the Island	Total
\$ 92,459	\$ 35,215	\$ 816,927
-	-	296
-	-	87,534
-	-	3,571
<u>\$ 92,459</u>	<u>\$ 35,215</u>	<u>\$ 908,328</u>
\$ -	\$ -	\$ 107,086
-	-	2,511
-	-	140,000
-0-	-0-	249,597
-	-	3,571
92,459	35,215	606,503
-	-	48,657
<u>92,459</u>	<u>35,215</u>	<u>658,731</u>
<u>\$ 92,459</u>	<u>\$ 35,215</u>	<u>\$ 908,328</u>

City of Eaton Rapids

Nonmajor Governmental Funds

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

Year Ended June 30, 2017

	Special		
	Major Streets Fund	Local Street Fund	Act 302 Training
<b>REVENUES</b>			
Property taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental			
Federal	38,450	-	-
State	341,835	116,629	296
Local	-	-	-
Charges for services	-	-	-
Interest	-	768	14
Donations	-	-	-
Other	-	2,225	1,410
<b>TOTAL REVENUES</b>	<b>380,285</b>	<b>119,622</b>	<b>1,720</b>
<b>EXPENDITURES</b>			
Current			
Public safety	-	-	1,424
Public works	732,905	116,440	-
Recreation and culture	-	-	-
Other	-	-	-
Debt service			
Principal retirement	15,000	-	-
Interest and other charges	7,130	-	-
<b>TOTAL EXPENDITURES</b>	<b>755,035</b>	<b>116,440</b>	<b>1,424</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(374,750)</b>	<b>3,182</b>	<b>296</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	31,573	72,445	-
Transfers out	(72,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(40,427)</b>	<b>72,445</b>	<b>-0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(415,177)</b>	<b>75,627</b>	<b>296</b>
Fund balances, beginning of year	415,177	380,957	6,273
Fund balances, end of year	<u>\$ -0-</u>	<u>\$ 456,584</u>	<u>\$ 6,569</u>

Revenue Funds

Parks and Recreation	Building Department	Drug Law Enforcement	MSHDA CDBG	Dog Park
\$ 74,244	\$ -	\$ -	\$ -	\$ -
-	66,997	-	-	-
-	-	-	-	-
25,683	-	-	-	-
4,000	-	-	-	-
26,583	-	1,689	-	-
-	-	21	-	-
-	-	-	-	-
8,129	1,480	-	-	-
<u>138,639</u>	<u>68,477</u>	<u>1,710</u>	<u>-0-</u>	<u>-0-</u>
-	73,045	373	-	-
-	-	-	-	-
139,235	-	-	-	-
-	-	-	-	-
13,653	-	-	-	-
3,249	-	-	-	-
<u>156,137</u>	<u>73,045</u>	<u>373</u>	<u>-0-</u>	<u>-0-</u>
(17,498)	(4,568)	1,337	-0-	-0-
48,693	4,003	-	-	-
(12,000)	-	-	-	-
<u>36,693</u>	<u>4,003</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
19,195	(565)	1,337	-0-	-0-
<u>12,575</u>	<u>10,243</u>	<u>1,646</u>	<u>16,670</u>	<u>55</u>
<u>\$ 31,770</u>	<u>\$ 9,678</u>	<u>\$ 2,983</u>	<u>\$ 16,670</u>	<u>\$ 55</u>

City of Eaton Rapids

Nonmajor Governmental Funds

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

Year Ended June 30, 2017

	<u>Debt Service</u>	<u>Capital Project</u>
	<u>Building Authority Debt</u>	<u>Capital Project</u>
REVENUES		
Property taxes	\$ -	\$ -
Licenses and permits	-	-
Intergovernmental		
Federal	-	-
State	-	-
Local	-	-
Charges for services	-	-
Interest	237	-
Donations	-	-
Other	-	-
	<hr/>	<hr/>
TOTAL REVENUES	237	-0-
EXPENDITURES		
Current		
Public safety	-	-
Public works	-	-
Recreation and culture	-	-
Other	-	5
Debt service		
Principal retirement	230,000	-
Interest and other charges	61,676	-
	<hr/>	<hr/>
TOTAL EXPENDITURES	291,676	5
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(291,439)	(5)
OTHER FINANCING SOURCES (USES)		
Transfers in	291,676	-
Transfers out	-	-
	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	291,676	-0-
NET CHANGE IN FUND BALANCES	237	(5)
Fund balances, beginning of year	<hr/> 5,283	<hr/> 1,233
Fund balances, end of year	<hr/> <u>\$ 5,520</u>	<hr/> <u>\$ 1,228</u>

Permanent Funds		
Cemetery Perpetual Care	Friends of the Island	Total
\$ -	\$ -	\$ 74,244
-	-	66,997
-	-	38,450
-	-	484,443
-	-	4,000
3,219	-	31,491
831	-	1,871
-	354	354
-	14,000	27,244
4,050	14,354	729,094
-	-	74,842
-	-	849,345
-	-	139,235
-	-	5
-	-	258,653
-	-	72,055
-0-	-0-	1,394,135
4,050	14,354	(665,041)
-	-	448,390
(7,500)	-	(91,500)
(7,500)	-0-	356,890
(3,450)	14,354	(308,151)
95,909	20,861	966,882
<u>\$ 92,459</u>	<u>\$ 35,215</u>	<u>\$ 658,731</u>

City of Eaton Rapids

Utility Fund

REVENUES AND EXPENSES

Year Ended June 30, 2017

	Electric Department	Water Department	Sewage Department	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 9,238,660	\$ 891,878	\$ 1,073,744	\$ 11,204,282
Fines and forfeitures	25,065	-	-	25,065
Other revenue	111,919	8,086	-	120,005
<b>TOTAL OPERATING REVENUES</b>	<b>9,375,644</b>	<b>899,964</b>	<b>1,073,744</b>	<b>11,349,352</b>
<b>OPERATING EXPENSES</b>				
	7,713,277	937,208	1,154,730	9,805,215
<b>DEPRECIATION</b>				
	280,581	260,762	509,722	1,051,065
<b>TOTAL OPERATING EXPENSES</b>	<b>7,993,858</b>	<b>1,197,970</b>	<b>1,664,452</b>	<b>10,856,280</b>
<b>OPERATING INCOME(LOSS)</b>	<b>1,381,786</b>	<b>(298,006)</b>	<b>(590,708)</b>	<b>493,072</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	-	-	129,751	129,751
Property taxes	-	-	557,400	557,400
Interest expense and fees on bonds	-	(6,695)	(132,578)	(139,273)
Interest income on investments	3,949	357	788	5,094
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>3,949</b>	<b>(6,338)</b>	<b>555,361</b>	<b>552,972</b>
<b>NET INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>1,385,735</b>	<b>(304,344)</b>	<b>(35,347)</b>	<b>1,046,044</b>
<b>OPERATING TRANSFERS</b>				
Transfers in	55,555	55,580	45,073	156,208
Transfers out	(291,676)	(85,000)	-	(376,676)
<b>TOTAL TRANSFERS</b>	<b>(236,121)</b>	<b>(29,420)</b>	<b>45,073</b>	<b>(220,468)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 1,149,614</b>	<b>\$ (333,764)</b>	<b>\$ 9,726</b>	<b>\$ 825,576</b>

City of Eaton Rapids

Utility Fund

EXPENSE BREAKDOWN

Year Ended June 30, 2017

	<u>Electric Department</u>	<u>Water Department</u>	<u>Sewage Department</u>	<u>Total</u>
OPERATING EXPENSES				
Personal services	\$ 546,540	\$ 195,295	\$ 288,889	\$ 1,030,724
Contractual services	162,425	38,035	116,894	317,354
Supplies	16,148	22,482	24,337	62,967
Materials	41,598	33,997	38,261	113,856
Utilities	2,298	40,615	127,551	170,464
Telephone	6,395	3,003	2,689	12,087
Insurance	11,043	13,136	17,703	41,882
Maintenance	5,768,637	184,449	38,296	5,991,382
Franchise fees	618,525	60,150	71,250	749,925
Benefit payments	497,366	294,191	393,395	1,184,952
Other expense	42,302	51,855	35,465	129,622
	<u>42,302</u>	<u>51,855</u>	<u>35,465</u>	<u>129,622</u>
TOTAL OPERATING EXPENSES	<u>\$ 7,713,277</u>	<u>\$ 937,208</u>	<u>\$ 1,154,730</u>	<u>\$ 9,805,215</u>

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2017

	Public Employee Benefit	Motor Pool Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 381,697	\$ 535,176	\$ 916,873
Noncurrent assets			
Capital assets, net of accumulated depreciation	-	609,562	609,562
<b>TOTAL ASSETS</b>	<b>381,697</b>	<b>1,144,738</b>	<b>1,526,435</b>
<b>LIABILITIES</b>			
Current liabilities			
Accrued interest payable	-	4,502	4,502
Current portion of long-term debt	-	29,066	29,066
Total current liabilities	-0-	33,568	33,568
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	157,781	157,781
<b>TOTAL LIABILITIES</b>	<b>-0-</b>	<b>191,349</b>	<b>191,349</b>
<b>NET POSITION</b>			
Net investment in capital assets	-	422,715	422,715
Unrestricted	381,697	530,674	912,371
<b>TOTAL NET POSITION</b>	<b>\$ 381,697</b>	<b>\$ 953,389</b>	<b>\$ 1,335,086</b>

City of Eaton Rapids

Internal Service Funds

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

Year Ended June 30, 2017

	Public Employee Benefit	Motor Pool Fund	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 725	\$ -	\$ 725
Other			
Contributions	93,196	-	93,196
Miscellaneous	7,254	-	7,254
<b>TOTAL OPERATING REVENUES</b>	<b>101,175</b>	<b>-0-</b>	<b>101,175</b>
<b>OPERATING EXPENSES</b>			
Supplies	-	20,936	20,936
Depreciation	-	88,163	88,163
<b>TOTAL OPERATING EXPENSES</b>	<b>-0-</b>	<b>109,099</b>	<b>109,099</b>
<b>OPERATING INCOME (LOSS)</b>	<b>101,175</b>	<b>(109,099)</b>	<b>(7,924)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest revenue	1,818	3,843	5,661
Interest expense	-	(5,242)	(5,242)
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<b>1,818</b>	<b>(1,399)</b>	<b>419</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>102,993</b>	<b>(110,498)</b>	<b>(7,505)</b>
<b>TRANSFERS</b>			
Transfers in	-	152,971	152,971
<b>CHANGE IN NET POSITION</b>	<b>102,993</b>	<b>42,473</b>	<b>145,466</b>
Net position, beginning of year	278,704	910,916	1,189,620
Net position, end of year	<u>\$ 381,697</u>	<u>\$ 953,389</u>	<u>\$ 1,335,086</u>

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

	Public Employee Benefit	Motor Pool Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from interfund services	\$ 725	\$ -	\$ 725
Cash received from miscellaneous	100,450	-	100,450
Cash paid to suppliers	-	(20,936)	(20,936)
	<u>101,175</u>	<u>(20,936)</u>	<u>80,239</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
	101,175	(20,936)	80,239
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in	-	152,971	152,971
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payment on capital lease	-	(28,287)	(28,287)
Interest paid	-	(5,923)	(5,923)
	<u>-0-</u>	<u>(34,210)</u>	<u>(34,210)</u>
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
	-0-	(34,210)	(34,210)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	1,818	3,843	5,661
	<u>1,818</u>	<u>3,843</u>	<u>5,661</u>
<b>NET INCREASE IN CASH AND INVESTMENTS</b>			
	102,993	101,668	204,661
Cash and investments, beginning of year	<u>278,704</u>	<u>433,508</u>	<u>712,212</u>
Cash and investments, end of year	<u>\$ 381,697</u>	<u>\$ 535,176</u>	<u>\$ 916,873</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ 101,175	\$ (109,099)	\$ (7,924)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	-	88,163	88,163
	<u>-</u>	<u>88,163</u>	<u>88,163</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
	<u>\$ 101,175</u>	<u>\$ (20,936)</u>	<u>\$ 80,239</u>

City of Eaton Rapids

Component Unit Fund

BALANCE SHEET - LDFA ISLAND INDUSTRIAL PARK

June 30, 2017

ASSETS	
Cash and investments	\$ 1,818,874
Prepays	<u>1,176</u>
TOTAL ASSETS	<u>\$ 1,820,050</u>
LIABILITIES	
Accounts payable	\$ 200
Accrued payroll	<u>758</u>
TOTAL LIABILITIES	958
FUND BALANCE	
Unassigned	<u>1,819,092</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,820,050</u>

City of Eaton Rapids

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE  
STATEMENT OF NET POSITION - LDFA ISLAND INDUSTRIAL PARK

June 30, 2017

**Fund balance - governmental fund** \$ 1,819,092

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

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

The cost of capital assets is	\$ 2,307,538	
Accumulated depreciation is	<u>(306,009)</u>	
Capital assets, net		2,001,529

Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of net position. These amounts consist of:

Deferred charges on refunding		150,012
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	17,820	
Deferred inflows of resources related to pensions	<u>(1,442)</u>	
		16,378

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Accrued interest payable	(4,202)	
Long-term debt	(2,305,000)	
Net pension liability	(95,499)	
Net other post-employment benefits obligation	<u>(125,582)</u>	
		<u>(2,530,283)</u>

**Net position of governmental activities** \$ 1,456,728

City of Eaton Rapids

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - LDFA ISLAND INDUSTRIAL PARK

Year Ended June 30, 2017

REVENUES	
Property taxes	\$ 187,881
Intergovernmental	5,050
Other	431
	<hr/>
TOTAL REVENUES	193,362
EXPENDITURES	
Current	
Community and economic development	512,019
Debt service	
Principal	140,000
Interest	38,639
	<hr/>
TOTAL EXPENDITURES	690,658
OTHER FINANCING SOURCES (USES)	
Bond proceeds	2,155,000
Payment to escrow agent	(2,158,649)
	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(3,649)
NET CHANGE IN FUND BALANCE	(500,945)
Fund balance, beginning of year	<hr/>
	2,320,037
Fund balance, end of year	<hr/>
	\$ 1,819,092

City of Eaton Rapids

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE  
STATEMENT OF ACTIVITIES - LDFA ISLAND INDUSTRIAL PARK

Year Ended June 30, 2017

**Net change in fund balance - governmental fund** \$ (500,945)

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

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

Depreciation expense (76,503)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Additions to deferred charges on refunding	\$ 163,649	
Amortization of deferred charges on refunding	(13,637)	
Debt proceeds	(2,155,000)	
Debt principal retirement	<u>2,135,000</u>	
		130,012

Some items reported in the statement of activities do not result in the use of current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:

(Decrease) in deferred outflows of resources related to pensions	(52,484)	
(Increase) in deferred inflows of resources related to pensions	(1,442)	
Decrease in accrued interest payable	4,714	
Decrease in net pension liability	150,571	
(Increase) in net other post-employment benefits obligation	<u>(6,888)</u>	
		<u>94,471</u>

**Change in net position of governmental activities** \$ (352,965)

City of Eaton Rapids

Component Unit Fund

BALANCE SHEET - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2017

ASSETS	
Cash and investments	\$ 345,749
Accounts receivable	<u>60</u>
TOTAL ASSETS	<u>\$ 345,809</u>
LIABILITIES	
Accounts payable	\$ 130
FUND BALANCE	
Unassigned	<u>345,679</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 345,809</u>

City of Eaton Rapids

Component Unit Fund

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

June 30, 2017

**Fund balance - governmental fund** \$ 345,679

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

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

The cost of capital assets is	\$ 931,489	
Accumulated depreciation is	<u>(15,303)</u>	
Capital assets, net		916,186

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Accrued interest payable	(1,943)	
Long-term debt	<u>(490,000)</u>	
		<u>(491,943)</u>

**Net position of governmental activities** \$ 769,922

City of Eaton Rapids

Component Unit Fund

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

Year Ended June 30, 2017

REVENUES	
Property taxes	\$ 107,173
Interest	1,107
Other	<u>1,825</u>
TOTAL REVENUES	110,105
EXPENDITURES	
Current	
Community and economic development	59,022
Debt service	
Principal	30,000
Interest	<u>24,520</u>
TOTAL EXPENDITURES	<u>113,542</u>
NET CHANGE IN FUND BALANCE	(3,437)
Fund balance, beginning of year	<u>349,116</u>
Fund balance, end of year	<u><u>\$ 345,679</u></u>

City of Eaton Rapids

Component Unit Fund

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

Year Ended June 30, 2017

**Net change in fund balance - governmental fund** \$ (3,437)

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

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

Depreciation expense (8,347)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Debt principal retirement 30,000

Some items reported in the statement of activities do not result in the use of current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:

(Decrease) in deferred outflows of resources related to pensions	\$ (2,988)
Decrease in accrued interest payable	100
Decrease in net pension liability	<u>10,458</u>

7,570

**Change in net position of governmental activities**

\$ 25,786