

City of Eaton Rapids

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total
REVENUES			
Property taxes	\$ 964,872	\$ 243,991	\$ 1,208,863
Licenses and permits	799,991	130,528	930,519
Intergovernmental			
State	727,784	553,419	1,281,203
Local	10,500	-	10,500
Charges for services	65,093	36,343	101,436
Fines and forfeits	25,786	-	25,786
Interest and rentals	110,454	6,424	116,878
Donations	4,615	543	5,158
Reimbursements	22,395	-	22,395
Other	104,479	6,717	111,196
	<u>2,835,969</u>	<u>977,965</u>	<u>3,813,934</u>
TOTAL REVENUES	2,835,969	977,965	3,813,934
EXPENDITURES			
Current			
General government	398,740	-	398,740
Public safety	1,247,756	91,266	1,339,022
Public works	570,136	679,633	1,249,769
Community and economic development	40,906	-	40,906
Health and welfare	11,519	-	11,519
Recreation and culture	334,750	175,360	510,110
Other	-	4,178	4,178
Debt service	-	493,106	493,106
Capital outlay	39,375	-	39,375
	<u>2,643,182</u>	<u>1,443,543</u>	<u>4,086,725</u>
TOTAL EXPENDITURES	2,643,182	1,443,543	4,086,725
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	192,787	(465,578)	(272,791)
OTHER FINANCING SOURCES (USES)			
Transfers in	73,493	292,019	365,512
Transfers out	(230,727)	(35,000)	(265,727)
	<u>(157,234)</u>	<u>257,019</u>	<u>99,785</u>
TOTAL OTHER FINANCING SOURCES (USES)	(157,234)	257,019	99,785
NET CHANGE IN FUND BALANCES	35,553	(208,559)	(173,006)
Fund balances, beginning of year	495,070	1,339,434	1,834,504
Prior period adjustment	-	100,387	100,387
	<u>-</u>	<u>100,387</u>	<u>100,387</u>
Fund balances, end of year	<u>\$ 530,623</u>	<u>\$ 1,231,262</u>	<u>\$ 1,761,885</u>

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, 2018

Net change in fund balances - total governmental funds \$ (173,006)

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	\$ 103,765	
Depreciation expense	<u>(514,613)</u>	
Excess of depreciation expense over capital outlay		(410,848)

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	179,232	
Capital outlay included in the total above	(103,765)	
Depreciation expense included in the total above	95,086	
(Decrease) in accrued interest payable included in the total below	(701)	
Debt principal retirement included in the total below	<u>(29,066)</u>	
		140,786

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	433,389	
Amortization of deferred charges	<u>(21,384)</u>	
		412,005

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	(349,297)	
(Increase) in deferred inflows of resources related to pensions	(129,670)	
Decrease in accrued interest payable	4,109	
(Increase) in compensated absences	(3,723)	
Decrease in net pension liability	388,195	
(Increase) in total other post-employment benefits liability	<u>(204,744)</u>	
		<u>(295,130)</u>

Change in net position of governmental activities \$ (326,193)

See accompanying notes to financial statements.

City of Eaton Rapids
Proprietary Funds
STATEMENT OF NET POSITION
June 30, 2018

	Business-type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
ASSETS		
Current assets		
Cash and investments	\$ 6,304,578	\$ 1,057,659
Accounts receivable	917,575	-
Due from other funds	139,535	-
Note receivable	8,111	-
Prepays and deposits	414,462	-
Inventories	406,931	-
Total current assets	8,191,192	1,057,659
Noncurrent assets		
Cash and investments - restricted	1,081,596	-
Advance to other funds	140,000	-
Capital assets, net of accumulated depreciation	10,036,050	618,241
Total noncurrent assets	11,257,646	618,241
TOTAL ASSETS	19,448,838	1,675,900
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	236,604	-
LIABILITIES		
Current liabilities		
Accounts payable	43,781	-
Accrued payroll	15,001	-
Accrued liabilities	269	-
Accrued interest payable	24,675	3,801
Current portion of compensated absences	44,384	-
Current portion of long-term debt	630,000	29,866
Current portion of maintenance contract payable	66,880	-
Total current liabilities	824,990	33,667
Noncurrent liabilities		
Customer deposits	166,685	-
Noncurrent portion of long-term debt	4,032,106	127,915
Net pension liability	2,702,087	-
Total other post-employment benefits liability	3,517,532	-
Total noncurrent liabilities	10,418,410	127,915
TOTAL LIABILITIES	11,243,400	161,582
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	171,791	-
NET POSITION		
Net investment in capital assets	5,373,944	460,460
Restricted		
Bond retirement	312,165	-
Electric utility	382,579	-
Unrestricted	2,201,563	1,053,858
TOTAL NET POSITION	\$ 8,270,251	\$ 1,514,318

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, 2018

	Business-type Activities	Governmental Activities
	<u>Utility Fund</u>	<u>Internal Service Funds</u>
OPERATING REVENUES		
Charges for services	\$ 11,665,097	\$ -
Fines and forfeitures	27,300	-
Other revenue	<u>575,003</u>	<u>100,481</u>
TOTAL OPERATING REVENUES	12,267,400	100,481
OPERATING EXPENSES		
Personal services	1,036,922	-
Contractual services	193,205	-
Supplies	54,603	-
Materials	131,453	-
Utilities	226,352	-
Telephone	13,874	-
Insurance	46,444	-
Maintenance	6,731,291	-
Franchise fees	760,443	-
Benefit payments	980,389	-
Other expense	78,480	18,762
Depreciation	<u>1,018,418</u>	<u>95,086</u>
TOTAL OPERATING EXPENSES	<u>11,271,874</u>	<u>113,848</u>
OPERATING INCOME (LOSS)	995,526	(13,367)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	543,306	-
Local community stabilization	172,098	-
Interest income	23,360	4,070
Interest expense	<u>(118,653)</u>	<u>(4,443)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>620,111</u>	<u>(373)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,615,637	(13,740)
TRANSFERS		
Transfers in	103,177	192,972
Transfers out	<u>(395,934)</u>	<u>-</u>
TOTAL TRANSFERS	<u>(292,757)</u>	<u>192,972</u>
CHANGE IN NET POSITION	1,322,880	179,232
Restated net position, beginning of year	<u>6,947,371</u>	<u>1,335,086</u>
Net position, end of year	<u><u>\$ 8,270,251</u></u>	<u><u>\$ 1,514,318</u></u>

See accompanying notes to financial statements.

City of Eaton Rapids

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

	Business-type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 12,387,872	\$ -
Cash receipts from interfunds	(139,535)	-
Cash received from miscellaneous	-	100,481
Cash paid to suppliers	(8,841,095)	(18,762)
Cash paid to employees	(1,031,286)	-
	<u>2,375,956</u>	<u>81,719</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	103,177	192,972
Transfers out	(395,934)	-
	<u>(292,757)</u>	<u>192,972</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes	543,306	-
Local community stabilization	172,098	-
Purchases of capital asset	(95,295)	(103,765)
Principal payments on long-term debt	(620,000)	(29,066)
Interest and fiscal charges	(121,976)	(5,144)
	<u>(121,867)</u>	<u>(137,975)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	23,360	4,070
	<u>23,360</u>	<u>4,070</u>
NET INCREASE IN CASH AND INVESTMENTS		
	1,984,692	140,786
Cash and investments, beginning of year	5,401,482	916,873
Cash and investments, end of year	<u>\$ 7,386,174</u>	<u>\$ 1,057,659</u>

City of Eaton Rapids

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2018

	<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)	\$ 995,526	\$ (13,367)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,018,418	95,086
Changes in assets and liabilities:		
Accounts receivable	105,492	-
Due from other funds	(139,535)	-
Notes receivable	1,502	-
Prepays	13,901	-
Inventories	(32,973)	-
Deferred outflows of resources related to pensions	272,208	-
Accounts payable	35,764	-
Accrued payroll	2,120	-
Accrued liabilities	269	-
Compensated absences	3,516	-
Customer deposits	13,478	-
Maintenance contract payable	(133,760)	-
Net pension liability	(24,752)	-
Total other post-employment benefits liability	114,165	-
Deferred inflows of resources related to pensions	130,617	-
	<u>130,617</u>	<u>-</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 2,375,956</u>	 <u>\$ 81,719</u>

City of Eaton Rapids

Fiduciary Fund

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2018

	<u>Agency Fund</u>
ASSETS	
Cash and investments	<u>\$ 2,274</u>
LIABILITIES	
Due to local units	<u>\$ 2,274</u>

City of Eaton Rapids

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2018

	LDFA Island Industrial Park	TIFA I Downtown Development Authority	Total
ASSETS			
Current assets			
Cash and investments	\$ 1,629,818	\$ 350,530	\$ 1,980,348
Accounts receivable	-	60	60
Prepays	1,176	-	1,176
Total current assets	1,631,173	350,590	1,981,763
Noncurrent assets			
Capital assets not being depreciated	777,493	514,130	1,291,623
Capital assets, net of accumulated depreciation	1,147,534	393,709	1,541,243
Total noncurrent assets	1,925,027	907,839	2,832,866
TOTAL ASSETS	3,556,200	1,258,429	4,814,629
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	136,375	-	136,375
Deferred outflows of resources related to pensions	3,736	-	3,736
TOTAL DEFERRED OUTFLOWS OF RESOURCES	140,111	-0-	140,111
LIABILITIES			
Current liabilities			
Accounts payable	-	4,850	4,850
Accrued wages	586	-	586
Accrued interest payable	3,578	1,843	5,421
Current portion of long-term debt	195,000	30,000	225,000
Total current liabilities	199,164	36,693	235,857
Noncurrent liabilities			
Noncurrent portion of long-term debt	1,915,000	430,000	2,345,000
Net pension liability	42,662	-	42,662
Total other post-employment benefit liability	71,717	-	71,717
Total noncurrent liabilities	2,029,379	430,000	2,459,379
TOTAL LIABILITIES	2,228,543	466,693	2,695,236
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	2,712	-	2,712
NET POSITION			
Net investment in capital assets	(184,973)	447,839	262,866
Unrestricted	1,650,029	343,897	1,993,926
TOTAL NET POSITION	\$ 1,465,056	\$ 791,736	\$ 2,256,792

See accompanying notes to financial statements.

City of Eaton Rapids

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

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	\$ 184,772	\$ 1,707	\$ (183,065)	\$ -	\$ (183,065)
TIFA I Downtown Development Authority	72,958	-	-	(72,958)	(72,958)
TOTALS	\$ 257,730	\$ 1,707	(183,065)	(72,958)	(256,023)
General revenues					
Property taxes			127,527	89,822	217,349
Investment earnings			7,673	1,550	9,223
Other			-	3,400	3,400
Total general revenues			135,200	94,772	229,972
Change in net position			(47,865)	21,814	(26,051)
Restated net position, beginning of the year			1,512,921	769,922	2,282,843
Net position, end of the year			\$ 1,465,056	\$ 791,736	\$ 2,256,792

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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, 2018

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 fund 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, 2018

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 budgets, 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, 2018

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, 2018, 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 5.1017 mills were also levied for wastewater improvements. The total taxable value for the 2017 levy for the property within the City was \$111,221,731.

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 one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated acquisition value on the date received.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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, 2018

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 Total Other Post-Employment Benefits Liability

The net pension liability and total other post-employment liability 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: DEPOSITS 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, 2018

NOTE B: DEPOSITS 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, 2018, the carrying amounts of the City's deposits were \$12,123,594 and the bank balance was \$12,163,785, of which \$5,529,863 was covered by federal depository insurance. The balance of \$6,633,922 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, 2018, 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, 2018

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk - continued

As of June 30, 2018, 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	\$ 9,060,026	\$ 1,980,348	\$ 2,274	\$ 11,042,648
Cash and investments - restricted	1,081,596	-	-	1,081,596
	<u>\$ 10,141,622</u>	<u>\$ 1,980,348</u>	<u>\$ 2,274</u>	<u>\$ 12,124,244</u>

NOTE C: CASH AND INVESTMENTS - RESTRICTED

The following summarizes the restricted cash and investments as of June 30, 2018:

	<u>Utility Fund</u>
Customer deposits	\$ 166,685
Bond reserve	914,911
	<u>\$ 1,081,596</u>

NOTE D: INTERNAL BALANCES

The following schedule details advances receivable and payable between funds as of June 30, 2018:

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	\$ 35,000
Utility Fund	<u>38,493</u>
	<u>\$ 73,493</u>
Transfer to Utility Fund from:	
General Fund	<u>\$ 103,177</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE E: INTERFUND TRANSFERS - CONTINUED

Transfers to nonmajor governmental funds from:		
General Fund	\$	19,578
Utility Fund		<u>272,441</u>
	\$	<u>292,019</u>
Transfer to Internal Service fund from:		
General Fund	\$	107,972
Utility Fund		<u>85,000</u>
	\$	<u>192,972</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, 2018, was as follows:

Primary Government

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities				
Capital assets not being depreciated				
Land	\$ 902,077	\$ -	\$ -	\$ 902,077
Capital assets being depreciated				
Buildings and improvements	5,300,969	-	-	5,300,969
Land improvements	1,349,236	-	-	1,349,236
Vehicles	1,605,713	103,765	-	1,709,478
Machinery, equipment, and furniture	744,764	-	-	744,764
Books	189,287	-	-	189,287
Infrastructure	4,233,296	-	-	4,233,296
Subtotal	13,423,265	103,765	-0-	13,527,030
Less accumulated depreciation for:				
Buildings and improvements	(2,810,217)	(95,457)	-	(2,905,674)
Land improvements	(533,758)	(56,578)	-	(590,336)
Vehicles	(987,162)	(96,604)	-	(1,083,766)
Machinery, equipment, and furniture	(569,129)	(17,022)	-	(586,151)
Books	(174,730)	(7,581)	-	(182,311)
Infrastructure	(1,124,218)	(241,371)	-	(1,365,589)
Subtotal	(6,199,214)	(514,613)	-0-	(6,713,827)
Net capital assets being depreciated	7,224,051	(410,848)	-0-	6,813,203
Capital assets, net	<u>\$ 8,126,128</u>	<u>\$ (410,848)</u>	<u>\$ -0-</u>	<u>\$ 7,715,280</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

Depreciation expense was charged to the following governmental activities:

General government	\$ 329,831
Public safety	120,295
Public works	43,361
Recreation and culture	<u>21,126</u>
Total depreciation expense	<u>\$ 514,613</u>

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Business-type activities				
Capital assets being depreciated				
Water	\$ 8,939,291	\$ 37,200	\$ (15,620)	\$ 8,960,871
Electric	8,506,310	58,095	(16,637)	8,547,768
Sewage	<u>14,685,184</u>	<u>-</u>	<u>(17,991)</u>	<u>14,667,193</u>
Subtotal	32,130,785	95,295	(50,248)	32,175,832
Less accumulated depreciation for:				
Water	(4,893,978)	(252,566)	15,620	(5,130,924)
Electric	(6,767,939)	(257,852)	16,637	(7,009,154)
Sewage	<u>(9,509,695)</u>	<u>(508,000)</u>	<u>17,991</u>	<u>(9,999,704)</u>
Subtotal	<u>(21,171,612)</u>	<u>(1,018,418)</u>	<u>50,248</u>	<u>(22,139,782)</u>
Capital assets, net	<u>\$ 10,959,173</u>	<u>\$ (923,123)</u>	<u>\$ -0-</u>	<u>\$ 10,036,050</u>

Component Units

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
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	<u>417,359</u>	<u>-</u>	<u>-</u>	<u>417,359</u>
Subtotal	1,947,404	-0-	-0-	1,947,404
Less accumulated depreciation for:				
Land improvements	(306,009)	(76,502)	-	(382,511)
Infrastructure	<u>(15,303)</u>	<u>(8,347)</u>	<u>-</u>	<u>(23,650)</u>
Subtotal	<u>(321,312)</u>	<u>(84,849)</u>	<u>-0-</u>	<u>(406,161)</u>
Net capital assets being depreciated	<u>1,626,092</u>	<u>(84,849)</u>	<u>-0-</u>	<u>1,541,243</u>
Capital assets, net	<u>\$ 2,917,715</u>	<u>\$ (84,849)</u>	<u>\$ -0-</u>	<u>\$ 2,832,866</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
2009 Capital improvement bonds	\$ 145,000	\$ -	\$ (20,000)	\$ 125,000	\$ 20,000
2009 Building authority refunding bonds	1,255,000	-	(225,000)	1,030,000	250,000
2016 General obligation bonds	1,455,000	-	(145,000)	1,310,000	150,000
Capital lease - Fire Truck	186,847	-	(29,066)	157,781	29,866
Land contract - 114 Mill Street	60,239	-	(14,323)	45,916	15,025
Compensated absences	105,254	116,332	(112,609)	108,977	108,977
	<u>3,207,340</u>	<u>116,332</u>	<u>(545,998)</u>	<u>2,777,674</u>	<u>573,868</u>
Business-type Activities					
2009 Capital improvement bonds	265,000	-	(40,000)	225,000	40,000
1999 Drinking water bonds	264,806	-	(90,000)	174,806	90,000
2004 WWTP improvement bonds	4,752,300	-	(490,000)	4,262,300	500,000
Compensated absences	40,868	64,140	(60,624)	44,384	44,384
	<u>5,322,974</u>	<u>64,140</u>	<u>(680,624)</u>	<u>4,706,490</u>	<u>674,384</u>
TOTAL PRIMARY GOVERNMENT	8,530,314	180,472	(1,226,622)	7,484,164	1,248,252
COMPONENT UNITS					
2009 Capital improvement bonds - DDA	490,000	-	(30,000)	460,000	30,000
2008 Tax increment bonds - LDFA	165,000	-	(165,000)	-0-	-
2016 Tax increment refunding bonds - LDFA	2,140,000	-	(30,000)	2,110,000	195,000
TOTAL COMPONENT UNIT	2,795,000	-0-	(225,000)	2,570,000	225,000
TOTAL REPORTING ENTITY	<u>\$ 11,325,314</u>	<u>\$ 180,472</u>	<u>\$ (1,451,622)</u>	<u>\$ 10,054,164</u>	<u>\$ 1,473,252</u>

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.	\$ 125,000
\$2,645,000 Building Authority Refunding Bonds dated December 23, 2009, due in annual installments of \$250,000 to \$270,000 through March 2022, with interest ranging from 4.00 to 4.30 percent, payable semi-annually.	1,030,000
\$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	225,000
\$1,600,000 General Obligation Bonds dated June 30, 2016, due in annual installments of \$150,000 to \$180,000 through June 2026, with interest ranging from 1.40 to 2.25 percent, payable annually.	<u>1,310,000</u>
	<u>\$ 2,690,000</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

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. \$ 157,781

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. \$ 174,806

\$9,545,000 WWTP Improvement Bonds dated September 23, 2004, due in annual installments of \$500,000 to \$560,000 through April 2026, with interest of 2.125 percent, payable semi-annually. 4,262,300

\$ 4,437,106

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. \$ 45,916

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 \$108,977 for governmental activities and \$44,384 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. \$ 460,000

\$2,155,000 Local Development Finance Authority Bond dated October 24, 2016, due in annual instalments of \$195,000 to \$220,000 through June 2028, with interest ranging from 1.60 to 2.45 percent, payable semi-annually. 2,110,000

\$ 2,570,000

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE G: LONG-TERM DEBT - CONTINUED

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, 2018, bonds due and payable March 1, 2019 through March 1, 2022 for the 2002 Building Authority Bonds in the amount of \$1,050,000 are considered defeased.

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, 2018, 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.

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

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
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	185,000	16,686	590,000	49,298	250,000	226,090
2024-2028	550,000	24,410	1,662,300	70,696	1,315,000	1,134,500
2029	-	-	-	-	55,000	2,750
	<u>\$ 2,465,000</u>	<u>\$ 254,324</u>	<u>\$ 4,662,106</u>	<u>\$ 456,430</u>	<u>\$ 2,570,000</u>	<u>\$ 1,772,546</u>

Year Ended June 30,	Land Contract - Governmental Activities		Capital Lease - Governmental Activities	
	Principal	Interest	Principal	Interest
	2019	\$ 15,025	\$ 1,876	\$ 29,866
2020	15,763	1,139	30,688	3,522
2021	15,128	365	31,533	2,677
2022	-	-	32,401	1,809
2023	-	-	33,293	917
	<u>\$ 45,916</u>	<u>\$ 3,380</u>	<u>\$ 157,781</u>	<u>\$ 13,269</u>

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.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE H: MAINTENANCE CONTRACT - CONTINUED

Future minimum payments under this contract are as follows:

<u>Year Ending June 30,</u>	
2019	<u>\$ 66,880</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.

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, depending on division. Member contributions are 0.00% to 6.25%, depending on division.

At the December 31, 2017, 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	16
Active employees	<u>33</u>
	<u>81</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE I: RETIREMENT PLAN - CONTINUED

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 2.24% to 12.16% based on annual payroll for open divisions. Three divisions that are closed to new employees had a total annual employer contribution of \$332,885.

Net Pension Liability

The net pension liability reported at June 30, 2018, was determined using a measure of the total pension liability and the pension net position as of December 31, 2017. The December 31, 2017, 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:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<u>Changes in Net Pension Liability</u>			
Balances as of December 31, 2016	\$ 14,544,381	\$ 8,538,127	\$ 6,006,254
Changes for the year			
Service cost	195,392	-	195,392
Interest on total pension liability	1,133,114	-	1,133,114
Difference between expected and actual experience	(163,693)	-	(163,693)
Employer contributions	-	460,910	(460,910)
Employee contributions	-	76,225	(76,225)
Net investment income	-	1,111,084	(1,111,084)
Benefit payments, including employee refunds	(956,317)	(956,317)	-0-
Administrative expense	-	(17,622)	17,622
Net changes	<u>208,496</u>	<u>674,280</u>	<u>(465,784)</u>
Balances as of December 31, 2017	<u>\$ 14,752,877</u>	<u>\$ 9,212,407</u>	<u>\$ 5,540,470</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE I: RETIREMENT PLAN - CONTINUED

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

For the year ended June 30, 2018, the employer recognized pension expense of \$862,769. 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	\$ 114,127	\$ 183,231
Differences in assumptions	168,061	-
Net difference between projected and actual earnings on pension plan investments	-	169,017
Contributions subsequent to the measurement date*	<u>202,955</u>	<u>-</u>
Total	<u>\$ 485,143</u>	<u>\$ 352,248</u>

- The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2019.

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>
2019	\$ 258,445
2020	(54,447)
2021	(184,956)
2022	(89,102)

Actuarial Assumptions

The total pension liability in the December 31, 2017 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.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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	\$ 7,115,648	\$ 5,540,470	\$ 4,212,305

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE J: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City of Eaton Rapids Retiree Healthcare Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City of Eaton Rapids. The Plan was established and is being funded under the authority of the City and under agreements with the unions representing various classes of employees. The Plan can be amended at the discretion of the City. The Plan does not issue separate stand-alone financial statements.

Benefits Provided

Benefits eligibility

- Administration - Age 55 with 20 years of service.
- Police - Age 50 with 25 years of service.
- Union - Age 50 with 25 years of service.

Benefits - Medical, Dental and Vision

Administration

Normal Retirement - Retiree must pay 2.5 % of the premium with the employer paying 97.5% of the full premium for an employee and spouse.

Early Retirement -

1. If employee has not reached the age of 55 but has 20 years of service at retirement, the percent of premium paid by the employer will be the employee's age at retirement divided by 55.
2. If employee is age 55 but has less than 20 years of service at retirement, the percent of premium paid by the employer will be the employee's years of service divided by 20.

Police

- Hired before 7/1/2013 - Retiree must pay 20% of the premium with the employer paying 80%.
- Hired on or after 7/1/2013 - Retiree must pay 50% of the premium with the employer paying 50%.

Union

- Hired before 1/1/2014 - Retiree must pay 20% of the premium with the employer paying 80%.
- Hired on or after 1/1/2014 - Retiree must pay 50% of the premium with the employer paying 50%.

Medicare - coverage secondary to Medicare is available to the retiree and spouse provided that retiree and spouse are enrolled in Medicare at retiree's expense and continue to pay the percent of premium as summarized above.

Summary of Plan Participants

At the June 30, 2018, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	25
Active employees	<u>27</u>
	<u><u>52</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Contributions

The City has no obligations to make contributions in advance of when the premiums are due for payments (i.e., may be financed on a “pay-as-you-go” basis). The City is currently only paying premiums of retirees from current, available financial resources. For the year ended June 30, 2018, the City’s only contribution was its portion of premium payments.

Net OPEB Liability

The net OPEB liability of the City was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined through a valuation using the alternative measurement method as of that date.

Actuarial Assumption

The total OPEB liability in the June 30, 2018 valuation was determined using the following assumptions applied to all periods included in the measurement:

Inflation	Implicit in expected payroll increases
Salary lincrease	2.50%
Investment rate of return	N/A; plan is not pre-funded
20-year Aa municipal bond rate	3.00%
Mortality	RPH 2014 Headcount weighted, annuitant and non-annuitant, sex-distinct with mortality improvement MP-2018

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.00 percent. Because the Plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future payments of the current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. June 30, 2018, is the first year of potential compliance with GASB 75, so there is no required discount rate change to disclose.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Change in Total OPEB Liability

The change in the total OPEB liability for the year ended June 30, 2018, is as follows:

	Increase (Decrease) Total OPEB Liability (a)
Balances at July 1, 2017	\$ 9,576,328
Changes for the year	
Service cost	342,989
Interest on total OPEB liability	288,279
Benefit payments	<u>(310,031)</u>
Net changes	<u>321,237</u>
Balances as of June 30, 2018	<u><u>\$ 9,897,565</u></u>

Summary of Significant Accounting Policies

For purposes of measuring the net other post-employment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported for the City. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments, if there were any, would be reported at fair value. At June 30, 2018, the City had no fiduciary plan assets so net position at June 30, 2018, was \$0.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.00 percent) or 1-percentage-point higher (4.00 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 8,399,775</u>	<u>\$ 9,897,565</u>	<u>\$ 11,826,800</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trends rates that are 1-percentage-point lower (7.50 percent) or 1-percentage-point higher (9.50 percent) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 11,603,153</u>	<u>\$ 9,897,565</u>	<u>\$ 8,541,796</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

OPEB Expense

For the year ended June 30, 2018, the City recognized OPEB expense of \$631,268.

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.

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 state 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. 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.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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 nonspendable, 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.

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, 2018, the City had the following fund balance classifications:

	General Fund	Nonmajor Governmental Funds	Total
Fund Balances			
Nonspendable			
Prepays	\$ 27,126	\$ 3,389	\$ 30,515
Restricted			
Highways and streets	-	1,026,354	1,026,354
Act 302 training	-	6,155	6,155
Parks and recreation	-	2,178	2,178
Building department	-	49,933	49,933
Drug law enforcement	-	3,734	3,734
Housing services	-	16,670	16,670
Dog park	-	55	55
Debt service	-	5,483	5,483
Cemetery perpetual care	-	84,503	84,503
Friends of the island	-	31,580	31,580
Committed			
Capital projects	-	1,228	1,228
Unassigned	503,497	-	503,497
TOTAL FUND BALANCES	\$ 530,623	\$ 1,231,262	\$ 1,761,885

NOTE N: TAX ABATEMENTS

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.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE N: TAX ABATEMENTS - CONTINUED

For the year ended June 30, 2018, the City abated property taxes revenues totaling \$58,016 under this program, including the following tax abatement agreements that exceeded 10 percent of the total amount abated:

- A 50 percent property tax reduction for a metal manufacturer allowing for additional investments in equipment, facilities, and employment. The abatement amounts to \$50,921.

NOTE O: RESTATEMENT OF BEGINNING NET POSITION/FUND BALANCE

Beginning net position has been restated for governmental activities, business-type activities, component units, and the utility fund due to a change in accounting principles.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>	<u>Utility Fund</u>
Beginning net position	\$ 2,724,640	\$ 6,474,577	\$ 2,226,650	\$ 6,474,577
Overstated accounts payable	100,387	-	-	-
Net OPEB obligation (GASB 45)	2,366,100	3,876,161	125,582	3,876,161
Net OPEB liability (GASB 75)	<u>(6,103,572)</u>	<u>(3,403,367)</u>	<u>(69,389)</u>	<u>(3,403,367)</u>
Restated beginning net position	<u>\$ (912,445)</u>	<u>\$ 6,947,371</u>	<u>\$ 2,282,843</u>	<u>\$ 6,947,371</u>

Beginning fund balance has been corrected in the Major Street Fund to properly reflect overstated accounts payable as noted below.

Beginning fund balance	\$ -
Prior period adjustment	
Accounts payable	<u>100,387</u>
Restated beginning fund balance	<u>\$ 100,387</u>

NOTE P: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during the year. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73* was also implemented during the year. This 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE Q: UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is current evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement increases 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. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

In April 2018, the GASB issued Statements No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes un terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variances with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 898,900	\$ 898,900	\$ 896,763	\$ (2,137)
Penalties and interest	8,000	8,000	11,785	3,785
Administration fees	60,000	60,000	55,522	(4,478)
Trailer fee	900	900	802	(98)
Total taxes	967,800	967,800	964,872	(2,928)
Licenses and permits				
Licenses	2,000	2,000	615	(1,385)
Franchise fees	790,443	790,443	799,026	8,583
Zoning board of appeals	300	300	350	50
Total licenses and permits	792,743	792,743	799,991	7,248
Intergovernmental				
Local	5,500	9,500	10,500	1,000
Federal	15,000	15,000	-	(15,000)
State aid and sales tax	648,500	666,500	727,784	61,284
Total intergovernmental	669,000	691,000	738,284	47,284
Charges for services				
Penal fines	52,014	52,014	40,940	(11,074)
Video fees	150	150	250	100
Grave openings	18,500	23,000	23,903	903
Total charges for services	70,664	75,164	65,093	(10,071)
Fines and forfeits	23,400	27,900	25,786	(2,114)
Interest and rents				
Interest	7,500	7,500	3,896	(3,604)
Rentals	35,050	106,550	106,558	8
Total interest and rents	42,550	114,050	110,454	(3,596)
Other				
Donations	9,750	9,850	4,615	(5,235)
Reimbursements	32,800	32,800	22,395	(10,405)
Miscellaneous	59,900	109,740	104,479	(5,261)
Total other	102,450	152,390	131,489	(20,901)
TOTAL REVENUES	2,668,607	2,821,047	2,835,969	14,922

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2017

EXPENDITURES	Budgeted Amounts		Actual	Variances with Final Budget Positive (Negative)
	Original	Final		
Current				
General government				
City council	\$ 20,875	\$ 27,925	\$ 24,868	\$ 3,057
City manager	16,242	20,612	36,164	(15,552)
General election	16,080	14,580	8,754	5,826
Assessor	69,400	115,235	107,698	7,537
Treasurer	31,450	34,380	30,004	4,376
City clerk	49,125	44,005	42,640	1,365
Board of Review	500	675	665	10
Building and grounds	18,500	29,000	26,945	2,055
Other	112,850	138,495	121,002	17,493
Total general government	335,022	424,907	398,740	26,167
Public safety				
Police	1,022,580	1,024,430	1,049,446	(25,016)
Fire	133,875	154,460	139,196	15,264
Building department	66,773	70,273	59,114	11,159
Total public safety	1,223,228	1,249,163	1,247,756	1,407
Public works				
Public works	409,205	429,941	426,401	3,540
Cemetery	94,500	159,158	143,735	15,423
Total public works	503,705	589,099	570,136	18,963
Community and economic development				
Planning and zoning	64,850	49,615	40,906	8,709
Health and welfare				
Ambulance	11,525	11,525	11,519	6
Recreation and culture				
Library	246,062	250,802	232,449	18,353
Other	52,200	86,300	102,301	(16,001)
Total recreation and culture	298,262	337,102	334,750	2,352
Capital outlay	93,802	54,524	39,375	15,149
TOTAL EXPENDITURES	2,530,394	2,715,935	2,643,182	72,753
EXCESS OF REVENUES OVER EXPENDITURES	138,213	105,112	192,787	87,675

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	\$ 23,000	\$ 23,000	\$ 73,493	\$ 50,493
Transfers out	(117,471)	(114,371)	(230,727)	(116,356)
 TOTAL OTHER FINANCING SOURCES (USES)	 (94,471)	 (91,371)	 (157,234)	 (65,863)
 NET CHANGE IN FUND BALANCE	 43,742	 13,741	 35,553	 21,812
 Fund balance, beginning of year	 495,070	 495,070	 495,070	 -0-
 Fund balance, end of year	 <u>\$ 538,812</u>	 <u>\$ 508,811</u>	 <u>\$ 530,623</u>	 <u>\$ 21,812</u>

City of Eaton Rapids

Defined Benefit Pension Plan

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Last Four Measurement Dates (ultimately ten years will be displayed)
(Amounts were determined as of December 31 of each year)

	2014	2015	2016	2017
Total Pension Liability				
Service cost	\$ 183,651	\$ 204,313	\$ 204,593	\$ 195,392
Interest	996,054	996,015	1,113,118	1,133,114
Difference between expected and actual experience	-	456,514	(120,921)	(163,693)
Changes of assumptions	-	672,241	-	-
Benefit payments including employee refunds	(761,548)	(864,911)	(928,190)	(956,317)
Other	(1)	31,125	4	-
Net Change in Total Pension Liability	418,156	1,495,297	268,604	208,496
Total Pension Liability, beginning	<u>12,362,324</u>	<u>12,780,480</u>	<u>14,275,777</u>	<u>14,544,381</u>
Total Pension Liability, ending	<u><u>\$ 12,780,480</u></u>	<u><u>\$ 14,275,777</u></u>	<u><u>\$ 14,544,381</u></u>	<u><u>\$ 14,752,877</u></u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 386,982	\$ 400,477	\$ 380,873	\$ 460,910
Contributions - employee	79,309	78,082	74,369	76,225
Net investment income	529,900	(127,375)	904,943	1,111,084
Benefit payments including employee refunds	(761,548)	(864,911)	(928,190)	(956,317)
Administrative expense	(19,419)	(18,667)	(17,889)	(17,622)
Net Change in Plan Fiduciary Net Position	215,224	(532,394)	414,106	674,280
Plan Fiduciary Net Position, beginning	<u>8,441,191</u>	<u>8,656,415</u>	<u>8,124,021</u>	<u>8,538,127</u>
Plan Fiduciary Net Position, ending	<u><u>\$ 8,656,415</u></u>	<u><u>\$ 8,124,021</u></u>	<u><u>\$ 8,538,127</u></u>	<u><u>\$ 9,212,407</u></u>
City's Net Pension Liability	<u><u>\$ 4,124,065</u></u>	<u><u>\$ 6,151,756</u></u>	<u><u>\$ 6,006,254</u></u>	<u><u>\$ 5,540,470</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	68%	57%	59%	62%
Covered Employee Payroll	\$ 1,750,141	\$ 2,030,058	\$ 1,970,006	\$ 1,860,156
City's Net Pension Liability as a percentage of covered employee payroll	236%	303%	305%	298%

City of Eaton Rapids

Defined Benefit Pension Plan

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Four Fiscal Years (ultimately ten years will be displayed)
 (Amounts were determined as of June 30 of each fiscal year)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contributions	\$ 393,271	\$ 390,978	\$ 424,370	\$ 392,798
Contributions in relation to the actuarially determined contribution	<u>393,271</u>	<u>390,978</u>	<u>424,370</u>	<u>392,798</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered Employee Payroll	\$ 1,961,806	\$ 1,999,071	\$ 2,059,368	\$ 1,572,338
Contributions as a percentage of covered employee payroll	20%	20%	21%	25%

City of Eaton Rapids

Post-Employment Health Care Benefits

SCHEDULE OF CHANGES IN EMPLOYER'S TOTAL OPEB LIABILITY AND RELATED RATIOS
 Last Fiscal Year (ultimately ten years will be displayed)
 (Amounts were determined as of June 30 of each fiscal year)

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 342,989
Interest on total OPEB liability	288,279
Benefit payments	<u>(310,031)</u>
Net change in total pension liability	321,237
Total OPEB liability, beginning	<u>9,576,328</u>
Total OPEB liability, ending	<u><u>\$ 9,897,565</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0%
Covered employee payroll	\$ 2,171,316
City's net OPEB liability as a percentage of covered employee payroll	456%

City of Eaton Rapids

Post-Employment Health Care Benefits

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last Fiscal Year (ultimately ten years will be displayed)
(Amounts were determined as of June 30 of each fiscal year)

	<u>2018</u>
Annually determined contributions	\$ 996,959
Contributions in relation to the annually determined contribution	<u>310,031</u>
Contribution deficiency (excess)	<u>\$ 686,928</u>
Covered employee payroll	\$ 2,171,316
Contributions as a percentage of covered employee payroll	14%

City of Eaton Rapids

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

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, 2018, 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	\$ 20,612	\$ 36,164	\$ 15,552
Public safety			
Police	1,024,430	1,049,446	25,016
Recreation and culture			
Other	86,300	102,301	16,001
Transfers out	114,371	230,727	116,356

NOTE B: PENSION PLAN

Changes of benefits terms: There were no changes of benefit terms for the plan year 2017.

Changes of assumptions: There were no changes of assumptions terms for the plan year 2017.

NOTE C: OTHER POST-EMPLOYMENT BENEFITS PLAN

Changes of benefits terms: There were no changes of benefit terms for the plan year 2018.

Changes of assumptions: There were no changes of assumptions terms for the plan year 2018.

OTHER SUPPLEMENTARY INFORMATION

City of Eaton Rapids
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2018

	Special			
	Major Street	Local Streets	Eaton County Road Fund	Act 302 Training
ASSETS				
Cash and investments	\$ 183,372	\$ 475,781	\$ 297,931	\$ 5,129
Accounts receivable	-	357	-	1,026
Due from other governmental units	68,850	23,902	-	-
Prepays	-	-	-	-
	<u>252,222</u>	<u>500,040</u>	<u>297,931</u>	<u>6,155</u>
TOTAL ASSETS	\$ 252,222	\$ 500,040	\$ 297,931	\$ 6,155
LIABILITIES				
Accounts payable	\$ 4,636	\$ -	\$ 18,432	\$ -
Accrued wages payable	709	62	-	-
Advance from other funds	-	-	-	-
	<u>5,345</u>	<u>62</u>	<u>18,432</u>	<u>-0-</u>
TOTAL LIABILITIES	5,345	62	18,432	-0-
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	246,877	499,978	279,499	6,155
Committed	-	-	-	-
	<u>246,877</u>	<u>499,978</u>	<u>279,499</u>	<u>6,155</u>
TOTAL FUND BALANCES	246,877	499,978	279,499	6,155
TOTAL LIABILITIES AND FUND BALANCES	\$ 252,222	\$ 500,040	\$ 297,931	\$ 6,155

Revenue Funds

Parks and Recreation	Building Department	Drug Law Enforcement	MSHDA CDBG	Dog Park
\$ 144,961	\$ 49,846	\$ 3,734	\$ 16,670	\$ 55
-	633	-	-	-
-	-	-	-	-
291	3,098	-	-	-
<u>\$ 145,252</u>	<u>\$ 53,577</u>	<u>\$ 3,734</u>	<u>\$ 16,670</u>	<u>\$ 55</u>
\$ 845	\$ -	\$ -	\$ -	\$ -
1,938	546	-	-	-
140,000	-	-	-	-
142,783	546	-0-	-0-	-0-
291	3,098	-	-	-
2,178	49,933	3,734	16,670	55
-	-	-	-	-
2,469	53,031	3,734	16,670	55
<u>\$ 145,252</u>	<u>\$ 53,577</u>	<u>\$ 3,734</u>	<u>\$ 16,670</u>	<u>\$ 55</u>

City of Eaton Rapids

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2018

	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	
	<u>Building Authority Debt</u>	<u>Capital Project</u>	<u>Cemetery Perpetual Care</u>	<u>Friends of the Island</u>
ASSETS				
Cash and investments	\$ 5,483	\$ 1,228	\$ 84,503	\$ 31,533
Accounts receivable	-	-	-	47
Due from other governmental units	-	-	-	-
Prepays	-	-	-	-
TOTAL ASSETS	<u>\$ 5,483</u>	<u>\$ 1,228</u>	<u>\$ 84,503</u>	<u>\$ 31,580</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued wages payable	-	-	-	-
Advance from other funds	-	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-	-0-
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	5,483	-	84,503	31,580
Committed	-	1,228	-	-
TOTAL FUND BALANCES	<u>5,483</u>	<u>1,228</u>	<u>84,503</u>	<u>31,580</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,483</u>	<u>\$ 1,228</u>	<u>\$ 84,503</u>	<u>\$ 31,580</u>

City of Eaton Rapids

Nonmajor Governmental Funds

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

Year Ended June 30, 2018

	Special			
	Major Streets	Local Streets	Eaton County Road Fund	Act 302 Training
REVENUES				
Property taxes	\$ -	\$ -	\$ 155,439	\$ -
Licenses and permits	-	-	-	-
Intergovernmental				
State	390,499	128,855	-	-
Charges for services	-	-	-	-
Interest	260	1,941	1,821	21
Donations	-	-	-	-
Other	-	553	-	1,100
TOTAL REVENUES	390,759	131,349	157,260	1,121
EXPENDITURES				
Current				
Public safety	-	-	-	1,535
Public works	204,917	88,200	386,516	-
Recreation and culture	-	-	-	-
Other	-	-	-	-
Debt service				
Principal retirement	20,250	-	145,000	-
Interest and other charges	6,530	-	26,948	-
TOTAL EXPENDITURES	231,697	88,200	558,464	1,535
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	159,062	43,149	(401,204)	(414)
OTHER FINANCING SOURCES (USES)				
Transfers in	428	245	-	-
Transfers out	(13,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(12,572)	245	-0-	-0-
NET CHANGE IN FUND BALANCES	146,490	43,394	(401,204)	(414)
Fund balances, beginning of year	-	456,584	680,703	6,569
Prior period adjustment	100,387	-	-	-
Fund balances, end of year	\$ 246,877	\$ 499,978	\$ 279,499	\$ 6,155

Revenue Funds

Parks and Recreation	Building Department	Drug Law Enforcement	MSHDA CDBG	Dog Park
\$ 88,552	\$ -	\$ -	\$ -	\$ -
-	130,528	-	-	-
34,065	-	-	-	-
34,738	-	736	-	-
717	11	15	-	-
-	-	-	-	-
4,274	790	-	-	-
162,346	131,329	751	-0-	-0-
-	89,731	-	-	-
-	-	-	-	-
175,360	-	-	-	-
-	-	-	-	-
14,323	-	-	-	-
2,579	-	-	-	-
192,262	89,731	-0-	-0-	-0-
(29,916)	41,598	751	-0-	-0-
12,615	1,755	-	-	-
(12,000)	-	-	-	-
615	1,755	-0-	-0-	-0-
(29,301)	43,353	751	-0-	-0-
31,770	9,678	2,983	16,670	55
-	-	-	-	-
<u>\$ 2,469</u>	<u>\$ 53,031</u>	<u>\$ 3,734</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, 2018

	Capital Project	Permanent Funds		Total
	Capital Project	Cemetery Perpetual Care	Friends of the Island	
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ 243,991
Licenses and permits	-	-	-	130,528
Intergovernmental				
State	-	-	-	553,419
Charges for services	-	869	-	36,343
Interest	-	1,175	-	6,424
Donations	-	-	543	543
Other	-	-	-	6,717
TOTAL REVENUES	-0-	2,044	543	977,965
EXPENDITURES				
Current				
Public safety	-	-	-	91,266
Public works	-	-	-	679,633
Recreation and culture	-	-	-	175,360
Other	-	-	4,178	4,178
Debt service				
Principal retirement	-	-	-	404,573
Interest and other charges	-	-	-	88,533
TOTAL EXPENDITURES	-0-	-0-	4,178	1,443,543
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	2,044	(3,635)	(465,578)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	292,019
Transfers out	-	(10,000)	-	(35,000)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(10,000)	-0-	257,019
NET CHANGE IN FUND BALANCES	-	(7,956)	(3,635)	(208,559)
Fund balances, beginning of year	1,228	92,459	35,215	1,339,434
Prior period adjustment	-	-	-	100,387
Fund balances, end of year	<u>\$ 1,228</u>	<u>\$ 84,503</u>	<u>\$ 31,580</u>	<u>\$ 1,231,262</u>

City of Eaton Rapids

Utility Fund

REVENUES AND EXPENSES

Year Ended June 30, 2018

	Electric Department	Water Department	Sewage Department	Total
OPERATING REVENUES				
Charges for services	\$ 9,487,987	\$ 897,557	\$ 1,279,553	\$ 11,665,097
Fines and forfeitures	27,300	-	-	27,300
Other revenue	570,506	3,872	625	575,003
TOTAL OPERATING REVENUES	10,085,793	901,429	1,280,178	12,267,400
OPERATING EXPENSES				
	8,315,415	799,954	1,138,087	10,253,456
DEPRECIATION				
	257,852	252,566	508,000	1,018,418
TOTAL OPERATING EXPENSES	8,573,267	1,052,520	1,646,087	11,271,874
OPERATING INCOME(LOSS)	1,512,526	(151,091)	(365,909)	995,526
NONOPERATING REVENUES (EXPENSES)				
Property taxes	-	-	543,306	543,306
Local community stabilization	-	-	172,098	172,098
Interest income on investments	23,360	-	-	23,360
Interest expense and fees on bonds	-	(4,517)	(114,136)	(118,653)
TOTAL NONOPERATING REVENUES (EXPENSES)	23,360	(4,517)	601,268	620,111
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,535,886	(155,608)	235,359	1,615,637
OPERATING TRANSFERS				
Transfers in	71,502	31,675	-	103,177
Transfers out	(276,976)	(85,000)	(33,958)	(395,934)
TOTAL TRANSFERS	(205,474)	(53,325)	(33,958)	(292,757)
CHANGE IN NET POSITION	\$ 1,330,412	\$ (208,933)	\$ 201,401	\$ 1,322,880

City of Eaton Rapids

Utility Fund

EXPENSE BREAKDOWN

Year Ended June 30, 2018

	<u>Electric Department</u>	<u>Water Department</u>	<u>Sewage Department</u>	<u>Total</u>
OPERATING EXPENSES				
Personal services	\$ 551,660	\$ 184,404	\$ 300,858	\$ 1,036,922
Contractual services	67,200	24,370	101,635	193,205
Supplies	20,844	16,653	17,106	54,603
Materials	55,558	40,200	35,695	131,453
Utilities	963	50,008	175,381	226,352
Telephone	8,118	3,123	2,633	13,874
Insurance	13,866	12,280	20,298	46,444
Maintenance	6,335,703	210,821	184,767	6,731,291
Franchise fees	629,043	60,150	71,250	760,443
Benefit payments	599,851	175,661	204,877	980,389
Other expense	32,609	22,284	23,587	78,480
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>\$ 8,315,415</u>	<u>\$ 799,954</u>	<u>\$ 1,138,087</u>	<u>\$ 10,253,456</u>

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2018

	Public Employee Benefit	Motor Pool Fund	Total
ASSETS			
Current assets			
Cash and investments	\$ 478,421	\$ 579,238	\$ 1,057,659
Noncurrent assets			
Capital assets, net of accumulated depreciation	-	618,241	618,241
TOTAL ASSETS	478,421	1,197,479	1,675,900
LIABILITIES			
Current liabilities			
Accrued interest payable	-	3,801	3,801
Current portion of long-term debt	-	29,866	29,866
Total current liabilities	-0-	33,667	33,667
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	127,915	127,915
TOTAL LIABILITIES	-0-	161,582	161,582
NET POSITION			
Net investment in capital assets	-	460,460	460,460
Unrestricted	478,421	575,437	1,053,858
TOTAL NET POSITION	\$ 478,421	\$ 1,035,897	\$ 1,514,318

City of Eaton Rapids

Internal Service Funds

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

Year Ended June 30, 2018

	Public Employee Benefit	Motor Pool Fund	Total
OPERATING REVENUES			
Other			
Contributions	\$ 95,019	\$ -	\$ 95,019
Miscellaneous	-	5,462	5,462
TOTAL OPERATING REVENUES	95,019	5,462	100,481
OPERATING EXPENSES			
Other expense	-	18,762	18,762
Depreciation	-	95,086	95,086
TOTAL OPERATING EXPENSES	-0-	113,848	113,848
OPERATING INCOME (LOSS)	95,019	(108,386)	(13,367)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	1,705	2,365	4,070
Interest expense	-	(4,443)	(4,443)
TOTAL NONOPERATING REVENUE (EXPENSES)	1,705	(2,078)	(373)
INCOME (LOSS) BEFORE TRANSFERS	96,724	(110,464)	(13,740)
TRANSFERS			
Transfers in	-	192,972	192,972
CHANGE IN NET POSITION	96,724	82,508	179,232
Net position, beginning of year	381,697	953,389	1,335,086
Net position, end of year	<u>\$ 478,421</u>	<u>\$ 1,035,897</u>	<u>\$ 1,514,318</u>

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

	Public Employee Benefit	Motor Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from miscellaneous	\$ 95,019	\$ 5,462	\$ 100,481
Cash paid to suppliers	-	(18,762)	(18,762)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	95,019	(13,300)	81,719
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	192,972	192,972
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital asset	-	(103,765)	(103,765)
Payment on capital lease	-	(29,066)	(29,066)
Interest paid	-	(5,144)	(5,144)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-0-	(137,975)	(137,975)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	1,705	2,365	4,070
NET INCREASE IN CASH AND INVESTMENTS	96,724	44,062	140,786
Cash and investments, beginning of year	381,697	535,176	916,873
Cash and investments, end of year	<u>\$ 478,421</u>	<u>\$ 579,238</u>	<u>\$ 1,057,659</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 95,019	\$ (108,386)	\$ (13,367)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	-	95,086	95,086
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 95,019</u></u>	<u><u>\$ (13,300)</u></u>	<u><u>\$ 81,719</u></u>

City of Eaton Rapids

Component Unit Fund

BALANCE SHEET - LDFA ISLAND INDUSTRIAL PARK

June 30, 2018

ASSETS	
Cash and investments	\$ 1,629,818
Accounts receivable	179
Prepays	<u>1,176</u>
TOTAL ASSETS	<u><u>\$ 1,631,173</u></u>
LIABILITIES	
Accrued payroll	\$ 586
FUND BALANCE	
Unassigned	<u>1,630,587</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,631,173</u></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, 2018

Fund balance - governmental fund \$ 1,630,587

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>(382,511)</u>	
Capital assets, net		1,925,027

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		136,375
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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	3,736	
Deferred inflows of resources related to pensions	<u>(2,712)</u>	
		1,024

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	(3,578)	
Long-term debt	(2,110,000)	
Net pension liability	(42,662)	
Total other post-employment benefits liability	<u>(71,717)</u>	
		<u>(2,227,957)</u>

Net position of governmental activities \$ 1,465,056

City of Eaton Rapids

Component Unit Fund

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

Year Ended June 30, 2018

REVENUES	
Property taxes	\$ 127,527
Intergovernmental	1,707
Interest	<u>7,673</u>
TOTAL REVENUES	136,907
EXPENDITURES	
Current	
Community and economic development	79,988
Debt service	
Principal	195,000
Interest	<u>50,424</u>
TOTAL EXPENDITURES	<u>325,412</u>
NET CHANGE IN FUND BALANCE	(188,505)
Fund balance, beginning of year	<u>1,819,092</u>
Fund balance, end of year	<u><u>\$ 1,630,587</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 - LDFA ISLAND INDUSTRIAL PARK

Year Ended June 30, 2018

Net change in fund balance - governmental fund **\$ (188,505)**

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 (76,502)

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:

Amortization of deferred charges on refunding	\$	(13,637)	
Debt principal retirement		<u>195,000</u>	
			181,363

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 accrued interest payable		624	
Decrease in net pension liability		52,837	
(Decrease) in deferred outflows of resources related to pensions		(14,084)	
(Increase) in deferred inflows of resources related to pensions		(1,270)	
(Increase) in total other post-employment benefits liability		<u>(2,328)</u>	
			<u>35,779</u>

Change in net position of governmental activities **\$ (47,865)**

City of Eaton Rapids

Component Unit Fund

BALANCE SHEET - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2018

ASSETS	
Cash and investments	\$ 350,530
Accounts receivable	<u>60</u>
TOTAL ASSETS	<u><u>\$ 350,590</u></u>
LIABILITIES	
Accounts payable	\$ 4,850
FUND BALANCE	
Unassigned	<u>345,740</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 350,590</u></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, 2018

Fund balance - governmental fund \$ 345,740

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>(23,650)</u>	
Capital assets, net		907,839

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	(1,843)	
Long-term debt	<u>(460,000)</u>	
		<u>(461,843)</u>
Net position of governmental activities		<u>\$ 791,736</u>

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, 2018

REVENUES	
Property taxes	\$ 89,822
Interest	1,550
Other	<u>3,400</u>
TOTAL REVENUES	94,772
EXPENDITURES	
Current	
Community and economic development	41,391
Debt service	
Principal	30,000
Interest	<u>23,320</u>
TOTAL EXPENDITURES	<u>94,711</u>
NET CHANGE IN FUND BALANCE	61
Fund balance, beginning of year	<u>345,679</u>
Fund balance, end of year	<u><u>\$ 345,740</u></u>

City of Eaton Rapids

Component Unit Fund

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

Year Ended June 30, 2018

Net change in fund balance - governmental fund \$ 61

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 accrued interest payable 100

Change in net position of governmental activities \$ 21,814



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated **December 18, 2018**.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify a deficiency in internal control that we consider to be a material weakness and other deficiencies in internal controls we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below to be a material weakness.

2018-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of cash, due from other governmental units, capital assets, deferred outflows of resources related to pensions, accounts payable, accrued liabilities, long-term debt payable, total other post-employment benefits liability, deferred inflows of resources related to pensions, and fund balance were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger. A similar issue was noted and reported in our audit comments last year.

2018-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles.

Cause: The City's internal controls over financial reporting failed to identify these misstatements.

Effect: The City's accounting records were initially misstated by amounts material to the financial statements. Necessary adjustments were brought to the attention of management and were subsequently recorded in the City's general ledger.

Recommendation: We recommend that the City should take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response:

2018-002 PENSION CENSUS DATA

Condition: During our testing of the census data and actuarial assumptions used in the pension actuarial valuation, we noted that no personnel records could be found for one retired employee/beneficiary whose spouse is noted as now receiving the benefits.

Criteria: The underlying data and assumptions used in the actuarial valuation should be accurate and reasonable in order for the pension expense to be accurate and the potential asset/obligation to be fairly stated in the financial statements.

Cause: The City does not have proper internal controls in place for the review of the census data and key assumptions used in the actuarial valuation.

Effect: The City's actuarial liability may be under or overstated due to potentially inaccurate information being provided by the actuary.

Recommendation: We recommend that the City implement procedures to reconcile the census data and assumptions when draft valuations are received from the actuaries.

Corrective Action Response:

2018-003 RECORDING OF STATE ACT 51 REVENUES

Condition: During our review of Act 51 revenues it was noted that one month's revenue was received but was not recorded in the general ledger in a timely manner or in the correct period.

Criteria: All receipts and payments should be recorded in the general ledger in the period in which the activity/event occurred in accordance with GAAP.

Cause: MT (Act 51) payments were received by the City and reported on the bank statement but the deposits were never recorded in the general ledger as having been deposited.

Effect: There is an increased risk of misstatements of financial reporting.

Recommendation: We recommend that the corresponding revenues and cash be properly recorded in the general ledger when state grants are received.

Corrective Action Response:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance on noncompliance or other matters that is required to be reported under *Governmental Auditing Standards* and which is described below:

2018-005 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, we noted that expenditures in various functions of the General Fund had exceeded the amounts appropriated. A similar issue was noted and reported on the previous audit.

Criteria: The Uniform Budgeting and Accounting Act requires the City to amend the original adopted budget "as soon as it comes apparent that a deviation from the original general appropriations act is necessary and the amount of deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The City's budget was not amended accordingly to incorporate all year end expenditures.

Effect: Having unfavorable budget variances as described above, the City is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the City Council monitor budgeted expenditures against actual expenditures and amend the adopted budget to alleviate future unfavorable budget variances in a timely manner.

Corrective Action Response:

City's Response to Findings

The City's response to the findings identified in our audit is described above as corrective action response. The City's response was not subjected to the auditing procedure applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of Report

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

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

December 18, 2018