

City of Richmond, Michigan

**Financial Report
with Supplemental Information
June 30, 2014**

City of Richmond, Michigan

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City of Richmond, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan as of June 30, 2014 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in 2014, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, certain liabilities have been reclassified to a deferred inflow. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

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

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

Plante & Moran, PLLC

August 20, 2014

City of Richmond, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Richmond, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with City's financial statements which follow.

Financial Highlights

As discussed in further detail in the management's discussion and analysis, the following represent the most significant financial highlights for the year ended June 30, 2014:

- The City's taxable value decreased from \$159 million in 2013 to \$156 million in 2014. The taxable value of the City would have been greater if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of more than \$69,000 in the 2013/2014 fiscal year, based upon the City's tax levy of 16.6526 mills. Tax revenue, the City's largest single revenue source, totaled \$2.4 million in the General Fund this year, representing a decrease of 4.2 percent from last fiscal year. This decrease primarily reflects a decrease in taxable value.
- State-shared revenue, a major source of revenue for the City's General Fund, increased for the year. The City received \$493,906 in the 2013/2014 fiscal year, an increase of \$13,453, or 2.8 percent, from last year. The current year amount represents a reduction of \$190,810, or 27.9 percent, from 2001/2002 funding levels. The City's proactive response to the decline in state-shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total long-term liabilities for governmental activities are \$199,375, an increase of \$4,657, or 2.4 percent, from the previous year. This increase relates to an increase in accrued compensated absences.
- Total fund balance for the City's governmental funds increased by \$229,594, primarily as a result of decreased expenditures and a tax-based sharing agreement with the TIFA.
- This was the second year of a tax-based sharing agreement with the TIFA. The agreement generated approximately \$296,000 of revenue for the General Fund over the past year.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report includes a series of financial statements. The statement of net position and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services. The activities are divided between governmental and business-type activities. Governmental activities include the General Fund, Special Revenue Funds, Capital Projects Funds, and a Permanent Fund. Business-type activities include the Water, Sewer, and WWTP Equipment Replacement Funds.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of Richmond, Michigan as a Whole

The following table shows a condensed format of the net position (in thousands of dollars) as of June 30, 2014 and 2013:

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 2,759	\$ 2,517	\$ 4,686	\$ 4,553	\$ 7,445	\$ 7,070
Noncurrent assets - Capital assets	<u>8,402</u>	<u>8,612</u>	<u>16,627</u>	<u>17,180</u>	<u>25,029</u>	<u>25,792</u>
Total assets	11,161	11,129	21,313	21,733	32,474	32,862
Liabilities						
Current liabilities	235	228	47	35	282	263
Long-term liabilities	<u>199</u>	<u>195</u>	<u>2,896</u>	<u>3,087</u>	<u>3,095</u>	<u>3,282</u>
Total liabilities	<u>434</u>	<u>423</u>	<u>2,943</u>	<u>3,122</u>	<u>3,377</u>	<u>3,545</u>
Net Position						
Net investment in capital assets	8,402	8,612	13,771	14,139	22,173	22,751
Restricted	447	450	559	539	1,006	989
Unrestricted	<u>1,878</u>	<u>1,644</u>	<u>4,040</u>	<u>3,933</u>	<u>5,918</u>	<u>5,577</u>
Total net position	<u>\$ 10,727</u>	<u>\$ 10,706</u>	<u>\$ 18,370</u>	<u>\$ 18,611</u>	<u>\$ 29,097</u>	<u>\$ 29,317</u>

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net position for both governmental and business-type activities totals \$29.1 million for fiscal year 2014. Net position is further segregated between restricted and unrestricted net position. The restricted net position, assets that are restricted for a specific purpose/use and invested in capital assets, total approximately \$23.2 million. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, totals approximately \$5.9 million.

The following table shows the change in net position for the years ended June 30, 2014 and 2013 (in thousands of dollars):

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue:						
Charges for services	\$ 810	\$ 760	\$ 1,684	\$ 1,744	\$ 2,494	\$ 2,504
Operating grants and contributions	425	384	-	-	425	384
Capital grants and contributions	180	335	-	16	180	351
General revenue:						
Property taxes	2,365	2,469	-	-	2,365	2,469
State-shared revenue	494	480	-	-	494	480
Interest	4	3	6	2	10	5
Franchise fees	91	90	-	-	91	90
Miscellaneous	31	35	-	-	31	35
Total revenue	4,400	4,556	1,690	1,762	6,090	6,318
Program Expenses						
General government	913	913	-	-	913	913
Public safety	1,805	1,746	-	-	1,805	1,746
Public works	1,093	1,009	-	-	1,093	1,009
Community development	61	66	-	-	61	66
Recreation and culture	507	519	-	-	507	519
Water and sewer	-	-	1,931	1,881	1,931	1,881
Total program expenses	4,379	4,253	1,931	1,881	6,310	6,134
Change in Net Position	\$ 21	\$ 303	\$ (241)	\$ (119)	\$ (220)	\$ 184

Governmental Activities

Governmental activities are those activities (such as public safety or health and human services) provided to the constituents of the City and supported by financing from property taxes and state-shared revenue.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The cost of providing services for governmental activities was approximately \$4.4 million for fiscal year 2014. Additionally, revenue for governmental activities totaled approximately \$4.4 million, which netted to an increase in net position for the year of approximately \$21,000. The City experienced a decline in capital grants and contributions revenue in the current year of approximately 46 percent. This decline primarily relates to the fact that the City was advanced CDBG revenue from the County in 2013.

Business-type Activities

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds and the WWTP Equipment Replacement Fund; these types of operations are most similar to private businesses.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. This includes the General Fund, Water Fund, and Sewer Fund. The other nonmajor governmental funds are consolidated and reported under the column with that heading. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and restricted revenue from grants or fees.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$1.1 million in 2014. The General Fund is supported primarily by property taxes and state-shared revenue.

Budgetary Highlights

Over the course of the year, the City administration and City Council monitor the budget and, if necessary, amend the budget to take into account unanticipated events that occur during the year. As previously stated, fund balances related to the City's governmental funds increased by approximately \$230,000. During the year ended June 30, 2014, the most significant budget amendments increased General Fund board of review expenditures as well as Major and Local Streets Funds maintenance expenditures due to the extreme winter.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2014, the City had \$25 million invested in capital assets (land, buildings, equipment, vehicles, and water and sewer lines). These assets are necessary to carry out the day-to-day operations of the City. See Note 4 for additional details.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt

The City's total long-term indebtedness as of June 30, 2014 is approximately \$3.1 million. Of this amount, \$2.9 million represents general obligation bonds. See Note 6 for additional details.

Economic Factors and Next Year's Budgets and Rates

At this time, the national economy continues to show signs of recovery. The national unemployment rate has decreased from 7.6 percent a year ago to 6.1 percent at the end of the City's current fiscal year. The State has turned around its previous depletion of fiscal reserves by adding to fund balance in recent years. During fiscal year 2015, the City anticipates a modest increase in the level of state-shared revenue. Due to falling property values, the taxable values in the City have fallen since 2008, resulting in lower revenue. As property tax values appear to be leveling off, the City is anticipating a \$34,000 increase in property tax revenue. The City will again utilize a sharing agreement with the TIFA that will result in an additional \$149,000 for the General Fund. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenue, and expenditures.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Richmond, Michigan's finance department.

City of Richmond, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 2,634,322	\$ 3,728,329	\$ 6,362,651	\$ 2,040,262
Receivables:				
Customers	-	398,112	398,112	-
Due from other governmental units	115,516	-	115,516	-
Special assessments	8,890	-	8,890	-
Due from primary government	-	-	-	95,070
Restricted assets (Notes 3 and 7)	-	559,379	559,379	-
Land held for resale	-	-	-	50,000
Capital assets (Note 4):				
Assets not subject to depreciation	120,000	157,042	277,042	7,683
Assets subject to depreciation	8,282,485	16,470,011	24,752,496	2,670,737
Total assets	11,161,213	21,312,873	32,474,086	4,863,752
Liabilities				
Accounts payable	122,826	46,709	169,535	14,075
Due to component units	95,070	-	95,070	-
Accrued liabilities and other	16,992	-	16,992	-
Noncurrent liabilities (Note 6):				
Due within one year	78,001	199,045	277,046	-
Due in more than one year	121,374	2,696,228	2,817,602	-
Total liabilities	434,263	2,941,982	3,376,245	14,075
Net Position				
Net investment in capital assets	8,402,485	13,771,139	22,173,624	2,678,420
Restricted for:				
Roads	327,241	-	327,241	-
Capital projects	-	559,379	559,379	-
Library - Nonexpendable	10,000	-	10,000	-
Library - Expendable	53,117	-	53,117	-
Mausoleum	56,282	-	56,282	-
Unrestricted	1,877,825	4,040,373	5,918,198	2,171,257
Total net position	<u>\$ 10,726,950</u>	<u>\$ 18,370,891</u>	<u>\$ 29,097,841</u>	<u>\$ 4,849,677</u>

City of Richmond, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 912,632	\$ 18,444	\$ 6,726	\$ -
Public safety	1,805,528	208,154	-	-
Public works	1,092,862	447,808	402,400	179,778
Community development	60,927	21,836	8,872	-
Recreation and culture	507,278	114,044	7,189	-
Total governmental activities	4,379,227	810,286	425,187	179,778
Business-type activities:				
Water	795,071	724,047	-	-
Sewer	1,122,291	959,980	-	-
WWTP equipment replacement	13,254	-	-	-
Total business-type activities	1,930,616	1,684,027	-	-
Total primary government	<u>\$ 6,309,843</u>	<u>\$ 2,494,313</u>	<u>\$ 425,187</u>	<u>\$ 179,778</u>
Component unit - Tax Increment Finance Authority	<u>\$ 660,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Interest				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit - Tax Increment Finance Authority
\$ (887,462)	\$ -	\$ (887,462)	\$ -
(1,597,374)	-	(1,597,374)	-
(62,876)	-	(62,876)	-
(30,219)	-	(30,219)	-
(386,045)	-	(386,045)	-
(2,963,976)	-	(2,963,976)	-
-	(71,024)	(71,024)	-
-	(162,311)	(162,311)	-
-	(13,254)	(13,254)	-
-	(246,589)	(246,589)	-
(2,963,976)	(246,589)	(3,210,565)	-
-	-	-	(660,165)
2,365,001	-	2,365,001	456,336
493,906	-	493,906	-
3,424	6,069	9,493	6,467
91,192	-	91,192	-
31,261	-	31,261	661
2,984,784	6,069	2,990,853	463,464
20,808	(240,520)	(219,712)	(196,701)
10,706,142	18,611,411	29,317,553	5,046,378
\$ 10,726,950	\$ 18,370,891	\$ 29,097,841	\$ 4,849,677

City of Richmond, Michigan

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,259,754	\$ 263,190	\$ 50,273	\$ 1,061,105	\$ 2,634,322
Receivables:					
Special assessments receivable	8,890	-	-	-	8,890
Due from other governmental units	90,003	18,536	6,977	-	115,516
Total assets	<u>\$ 1,358,647</u>	<u>\$ 281,726</u>	<u>\$ 57,250</u>	<u>\$ 1,061,105</u>	<u>\$ 2,758,728</u>
Liabilities					
Accounts payable	\$ 63,944	\$ 5,950	\$ 5,785	\$ 47,147	\$ 122,826
Due to component units	-	-	-	95,070	95,070
Accrued liabilities and other	16,992	-	-	-	16,992
Total liabilities	80,936	5,950	5,785	142,217	234,888
Deferred Inflows of Resources -					
Unavailable revenue	94,384	-	-	-	94,384
Fund Balances					
Nonspendable -					
Library endowment	-	-	-	10,000	10,000
Restricted:					
Roads	-	275,776	51,465	-	327,241
Library	-	-	-	53,117	53,117
Mausoleum	-	-	-	56,282	56,282
Committed:					
Fire	-	-	-	24,800	24,800
Parks and recreation	-	-	-	78,214	78,214
Cemetery	-	-	-	36,196	36,196
Assigned:					
Subsequent year's budget	213,120	-	-	-	213,120
Capital projects	-	-	-	660,279	660,279
Unassigned	970,207	-	-	-	970,207
Total fund balances	<u>1,183,327</u>	<u>275,776</u>	<u>51,465</u>	<u>918,888</u>	<u>2,429,456</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,358,647</u>	<u>\$ 281,726</u>	<u>\$ 57,250</u>	<u>\$ 1,061,105</u>	<u>\$ 2,758,728</u>

City of Richmond, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$ 2,429,456
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	8,402,485
Certain receivables were earned during the current fiscal year but are not available to pay for current year expenditures	94,384
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	<u>(199,375)</u>
Net Position of Governmental Activities	<u>\$ 10,726,950</u>

City of Richmond, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total
Revenue					
Property taxes	\$ 2,365,001	\$ -	\$ -	\$ -	\$ 2,365,001
Licenses and permits	132,480	-	-	-	132,480
Federal sources	-	-	-	1,575	1,575
State-shared revenue and grants	512,555	298,184	105,994	-	916,733
Charges for services	462,411	-	-	221,379	683,790
Fines and forfeitures	43,460	-	-	-	43,460
Interest	2,698	-	-	726	3,424
Other revenue:					
Special assessments	1,778	-	-	-	1,778
Donations	6,225	-	-	178,380	184,605
Other miscellaneous income	51,810	107	1,046	9,278	62,241
Total revenue	<u>3,578,418</u>	<u>298,291</u>	<u>107,040</u>	<u>411,338</u>	<u>4,395,087</u>
Expenditures - Current					
General government	552,621	-	-	-	552,621
Public service	-	-	-	59,886	59,886
Public safety	1,571,706	-	-	184,863	1,756,569
Public works	648,463	230,757	309,494	-	1,188,714
Recreation and culture	259,049	-	-	225,698	484,747
Capital outlay	2,385	-	16,076	-	18,461
Debt service - Principal	104,495	-	-	-	104,495
Total expenditures	<u>3,138,719</u>	<u>230,757</u>	<u>325,570</u>	<u>470,447</u>	<u>4,165,493</u>
Excess of Revenue Over (Under) Expenditures	439,699	67,534	(218,530)	(59,109)	229,594
Other Financing Sources (Uses)					
Transfers in (Note 5)	-	-	196,547	441,560	638,107
Transfers out (Note 5)	(441,560)	(50,000)	-	(146,547)	(638,107)
Total other financing (uses) sources	<u>(441,560)</u>	<u>(50,000)</u>	<u>196,547</u>	<u>295,013</u>	<u>-</u>
Net Change in Fund Balances	(1,861)	17,534	(21,983)	235,904	229,594
Fund Balances - Beginning of year	<u>1,185,188</u>	<u>258,242</u>	<u>73,448</u>	<u>682,984</u>	<u>2,199,862</u>
Fund Balances - End of year	<u>\$ 1,183,327</u>	<u>\$ 275,776</u>	<u>\$ 51,465</u>	<u>\$ 918,888</u>	<u>\$ 2,429,456</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Richmond, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ 229,594
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	149,104
Depreciation expense	(358,181)
Special assessment revenue is not reported in the funds until received; this revenue is recorded as revenue when the project is substantially completed in the government-wide statements	(1,778)
Intergovernmental revenue is recognized in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	6,726
Increase in accumulated employee sick and vacation pay does not require the use of current resources and therefore is not reported in the fund statements until it comes due for payment	<u>(4,657)</u>
Change in Net Position of Governmental Activities	<u>\$ 20,808</u>

City of Richmond, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Major Enterprise Funds		Nonmajor Enterprise - WWTP Equipment Replacement	Total
	Water Fund	Sewer Fund		
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 548,171	\$ 2,638,404	\$ 541,754	\$ 3,728,329
Receivables - Customers	<u>180,802</u>	<u>217,310</u>	<u>-</u>	<u>398,112</u>
Total current assets	728,973	2,855,714	541,754	4,126,441
Noncurrent assets:				
Restricted assets (Note 7)	-	559,379	-	559,379
Capital assets (Note 4):				
Assets not subject to depreciation	128,983	28,059	-	157,042
Assets subject to depreciation	<u>5,301,482</u>	<u>11,036,272</u>	<u>132,257</u>	<u>16,470,011</u>
Total noncurrent assets	<u>5,430,465</u>	<u>11,623,710</u>	<u>132,257</u>	<u>17,186,432</u>
Total assets	6,159,438	14,479,424	674,011	21,312,873
Liabilities				
Current liabilities:				
Accounts payable	9,525	37,184	-	46,709
Current portion of compensated absences (Note 6)	7,733	6,312	-	14,045
Current portion of long-term debt (Note 6)	<u>-</u>	<u>185,000</u>	<u>-</u>	<u>185,000</u>
Total current liabilities	17,258	228,496	-	245,754
Noncurrent liabilities:				
Long-term portion of compensated absences (Note 6)	14,356	10,958	-	25,314
Long-term debt (Note 6)	<u>-</u>	<u>2,670,914</u>	<u>-</u>	<u>2,670,914</u>
Total noncurrent liabilities	<u>14,356</u>	<u>2,681,872</u>	<u>-</u>	<u>2,696,228</u>
Total liabilities	<u>31,614</u>	<u>2,910,368</u>	<u>-</u>	<u>2,941,982</u>
Net Position				
Net investment in capital assets	5,430,465	8,208,417	132,257	13,771,139
Restricted (Note 7)	-	559,379	-	559,379
Unrestricted	<u>697,359</u>	<u>2,801,260</u>	<u>541,754</u>	<u>4,040,373</u>
Total net position	<u>\$ 6,127,824</u>	<u>\$ 11,569,056</u>	<u>\$ 674,011</u>	<u>\$ 18,370,891</u>

City of Richmond, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Major Enterprise Funds		Nonmajor Enterprise - WWTP Equipment Replacement	Total
	Water Fund	Sewer Fund		
Operating Revenue				
Usage fees	\$ 696,941	\$ 921,788	\$ -	\$ 1,618,729
Tap-in fees	245	350	-	595
Charges for services	3,469	-	-	3,469
Penalties	12,202	16,311	-	28,513
Miscellaneous	11,190	21,531	-	32,721
Total operating revenue	724,047	959,980	-	1,684,027
Operating Expenses				
Water production	144,152	-	-	144,152
Sewer treatment plant	-	407,244	2,731	409,975
Administration	121,376	137,236	-	258,612
Water system	360,624	-	-	360,624
Sewer system	-	147,418	-	147,418
Depreciation	167,879	373,628	10,523	552,030
Total operating expenses	794,031	1,065,526	13,254	1,872,811
Operating Loss	(69,984)	(105,546)	(13,254)	(188,784)
Nonoperating Revenue (Expenses)				
Investment income	1,606	1,758	2,705	6,069
Interest expense	-	(56,765)	-	(56,765)
Loss on sale of assets	(1,040)	-	-	(1,040)
Total nonoperating revenue (expenses)	566	(55,007)	2,705	(51,736)
Loss - Before transfers	(69,418)	(160,553)	(10,549)	(240,520)
Transfers In (Note 5)	22,454	-	27,025	49,479
Transfers Out (Note 5)	-	(49,479)	-	(49,479)
Change in Net Position	(46,964)	(210,032)	16,476	(240,520)
Net Position - Beginning of year	6,174,788	11,779,088	657,535	18,611,411
Net Position - End of year	\$ 6,127,824	\$11,569,056	\$ 674,011	\$18,370,891

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Richmond, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2014

	Major Enterprise Funds		Nonmajor Enterprise - WWTP Equipment Replacement	Total
	Water Fund	Sewer Fund		
Cash Flows from Operating Activities				
Receipts from customers	\$ 727,727	\$ 966,289	\$ -	\$ 1,694,016
Payments to suppliers, employees, and other funds	(627,015)	(686,098)	(2,731)	(1,315,844)
Net cash provided by (used in) operating activities	100,712	280,191	(2,731)	378,172
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	22,454	-	27,025	49,479
Transfers to other funds	-	(49,479)	-	(49,479)
Net cash provided by (used in) noncapital financing activities	22,454	(49,479)	27,025	-
Cash Flows from Capital and Related Financing Activities -				
Principal and interest paid on capital debt	-	(241,765)	-	(241,765)
Cash Flows from Investing Activities - Interest received on investments	1,606	1,758	2,705	6,069
Net Increase (Decrease) in Cash and Cash Equivalents	124,772	(9,295)	26,999	142,476
Cash and Cash Equivalents - Beginning of year	423,399	3,207,078	514,755	4,145,232
Cash and Cash Equivalents - End of year	<u>\$ 548,171</u>	<u>\$ 3,197,783</u>	<u>\$ 541,754</u>	<u>\$ 4,287,708</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 548,171	\$ 2,638,404	\$ 541,754	\$ 3,728,329
Restricted cash	-	559,379	-	559,379
Total cash and cash equivalents	<u>\$ 548,171</u>	<u>\$ 3,197,783</u>	<u>\$ 541,754</u>	<u>\$ 4,287,708</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (69,984)	\$ (105,546)	\$ (13,254)	\$ (188,784)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	167,879	373,628	10,523	552,030
Changes in assets and liabilities:				
Receivables	3,680	6,309	-	9,989
Inventories	(5,342)	(1,525)	-	(6,867)
Accounts payable	4,479	7,325	-	11,804
Net cash provided by (used in) operating activities	<u>\$ 100,712</u>	<u>\$ 280,191</u>	<u>\$ (2,731)</u>	<u>\$ 378,172</u>

City of Richmond, Michigan

Fiduciary Funds Statement of Fiduciary Assets and Liabilities Trust and Agency Fund June 30, 2014

Assets	
Cash (Note 3)	\$ 3,702
Taxes receivable	<u>482</u>
Total assets	<u><u>\$ 4,184</u></u>
Liabilities - Accrued liabilities and other	<u><u>\$ 4,184</u></u>

Note I - Nature of Business and Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Richmond, Michigan (the "City"):

Reporting Entity

The City of Richmond, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units

The Tax Increment Finance Authority (the "Authority") was created to promote capital expansion within the City. The Authority's governing body is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. There are no separately issued financial statements for the Tax Increment Finance Authority.

The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation was inactive during the year and has no assets or liabilities.

Accounting and Reporting Principles

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

Report Presentation

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

Note I - Nature of Business and Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: property taxes, state gas and weight tax revenue, franchise fee, licenses, and interest associated with the current fiscal period. Conversely, some state-shared revenue and special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources".

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

Fund Accounting

The City accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund;
- The Major Streets Fund, which accounts for the activities related to major street construction. The City receives state gas and weight tax collection allocation to fund construction;
- The Local Streets Fund, which accounts for the activities related to local street construction. The City receives state gas and weight tax collection allocation to fund construction.

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

- The Water Fund provides water to customers in exchange for user charges.
- The Sewer Fund provides sewer services to customers in exchange for user charges.

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- The Agency Funds, which account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value, based on quoted market prices, or estimated fair value.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The Sewer Fund has restricted assets relating to the future capital needs for the sewer treatment plant as required by Environmental Protection Agency regulations.

Land Held for Resale - The land held for resale in the Tax Increment Finance Authority Fund consists of real property purchased by the TIFA. The TIFA plans to sell the land. The land is recorded at the lower of cost or fair market value.

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

Capital assets are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Lives
Buildings and improvements	5 - 50 years
Vehicles and equipment	5 - 40 years
Utility systems	50 years
Infrastructure - Roads	25 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

Note I - Nature of Business and Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues qualify for reporting in this category. The deferred inflows of resources related to unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: special assessments and state-shared revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls.

The 2013 taxable valuation of the City totaled \$156.1 million (a portion of which is captured by the TIFA), on which taxes levied consisted of 16.6526 mills for operating purposes. This resulted in \$2,262,065 for operating, which is recognized in the General Fund financial statements as tax revenue.

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees earn benefits based on time of service with the City. All vacation and sick pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate. Generally, the funds that report each employee's compensation (the General Fund, Street Funds, Cemetery, Parks and Recreation, Water, and Sewer Funds, primarily) are used to liquidate the obligation.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification - 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 Water and Sewer Funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Change in Accounting - During the current year, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources. As a result of implementing this statement, deferred revenue previously presented as a liability is now presented as deferred inflows of resources.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provision of the act, the City adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2014 is as follows:

Accumulated Expenditures Over Revenue - July 1, 2013	\$ (347,115)
Current year revenue	39,262
Current year expenditures - Direct costs	<u>76,889</u>
Excess of expenditures over revenue	<u>(37,627)</u>
Accumulated Expenditures Over Revenue - June 30, 2014	<u>\$ (384,742)</u>

Note 3 - Deposits and Investments

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

The City has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investment options as allowed under the state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to one type of risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$7,234,456 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City also holds bank deposits on behalf of its component unit. At year end, the City had \$773,945 of component unit bank deposits that were uninsured and uncollateralized. The City and its component unit believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and its component unit evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities and its component unit was as follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
Capital assets being depreciated:				
Infrastructure	3,980,855	137,254	-	4,118,109
Buildings and improvements	4,982,221	-	-	4,982,221
Vehicles and equipment	4,230,752	11,850	-	4,242,602
Subtotal	13,193,828	149,104	-	13,342,932
Accumulated depreciation:				
Infrastructure	254,334	13,031	-	267,365
Buildings and improvements	1,417,866	67,810	-	1,485,676
Vehicles and equipment	3,030,066	277,340	-	3,307,406
Subtotal	4,702,266	358,181	-	5,060,447
Net capital assets being depreciated	8,491,562	(209,077)	-	8,282,485
Net capital assets	<u>\$ 8,611,562</u>	<u>\$ (209,077)</u>	<u>\$ -</u>	<u>\$ 8,402,485</u>
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 157,042	\$ -	\$ -	\$ 157,042
Capital assets being depreciated:				
Utility systems	16,381,970	-	-	16,381,970
Buildings	9,486,618	-	-	9,486,618
Vehicles and equipment	925,822	-	(5,200)	920,622
Subtotal	26,794,410	-	(5,200)	26,789,210
Accumulated depreciation:				
Utility systems	5,274,642	396,333	-	5,670,975
Buildings	3,759,418	122,881	-	3,882,299
Vehicles and equipment	737,269	32,816	(4,160)	765,925
Subtotal	9,771,329	552,030	(4,160)	10,319,199
Net capital assets being depreciated	17,023,081	(552,030)	(1,040)	16,470,011
Net capital assets	<u>\$ 17,180,123</u>	<u>\$ (552,030)</u>	<u>\$ (1,040)</u>	<u>\$ 16,627,053</u>

City of Richmond, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

Component Units	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets not being depreciated - Construction in progress	\$ -	\$ 7,683	\$ -	\$ 7,683
Capital assets being depreciated:				
Infrastructure	2,115,697	-	-	2,115,697
Buildings and improvements	171,857	-	-	171,857
Furniture and fixtures	162,942	-	-	162,942
Land improvements	729,704	-	-	729,704
Subtotal	3,180,200	-	-	3,180,200
Accumulated depreciation:				
Infrastructure	236,328	35,053	-	271,381
Buildings and improvements	99,841	13,624	-	113,465
Furniture and fixtures	48,981	10,327	-	59,308
Land improvements	52,701	12,608	-	65,309
Subtotal	437,851	71,612	-	509,463
Net capital assets being depreciated	2,742,349	(71,612)	-	2,670,737
Net capital assets	\$ 2,742,349	\$ (63,929)	\$ -	\$ 2,678,420

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

Governmental activities:

General government	\$ 262,196
Public safety	75,108
Recreation and culture	20,877

Total governmental activities \$ 358,181

Business-type activities:

Water lines	\$ 167,879
Sewer lines	373,628
WWTP equipment	10,523

Total business-type activities \$ 552,030

City of Richmond, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2014, \$33,310 was due to the Tax Increment Finance Authority from the Fire Department Fund related to the purchase of a fire truck. The amount will be paid in 2015. At June 30, 2014, \$61,760 was due to the Tax Increment Finance Authority from the Vehicle and Repairs Fund related to the purchase of a street sweeper. The amount will be paid in four equal payments through 2018.

Interfund balances represent routine cash flow assistance.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 441,560
Major Streets Fund	Local Streets Fund	50,000
Nonmajor governmental funds	Local Streets Fund	146,547
Sewer Fund	Water Fund	22,454
	Nonmajor enterprise fund	27,025
	Total Sewer Fund	<u>49,479</u>
	Total	<u>\$ 687,586</u>

Transfers provided funding for capital projects, capital acquisitions, and program services in accordance with budgetary authorizations.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term debt activity can be summarized as follows:

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
Compensated absences	\$ -	\$ -	\$ 194,718	\$ 4,657	\$ -	\$ 199,375	\$ 78,001

City of Richmond, Michigan

Notes to Financial Statements June 30, 2014

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds - 2010							
Sewage Disposal System Revolving Loan:							
Amount of issue - \$1,585,000		\$40,000 -					
Maturing through 2030	2.5%	\$60,000	\$ 840,000	\$ -	\$ 40,000	\$ 800,000	\$ 40,000
General obligation bonds - 2007							
Sewage Disposal System Revolving Loan:							
Amount of issue - \$3,010,914		\$140,000 -					
Maturing through 2027	1.625%	\$170,000	2,200,914	-	145,000	2,055,914	145,000
Total bonds payable			3,040,914	-	185,000	2,855,914	185,000
Compensated absences			46,226	-	6,867	39,359	14,045
Total business-type activities			\$ 3,087,140	\$ -	\$ 191,867	\$ 2,895,273	\$ 199,045

The Sewage Disposal System Revolving Loans represent the City's obligations under State Revolving Fund loans related to sewer construction projects. The City has pledged its full faith and credit related to the repayment of these obligations.

Total interest expense for the year was approximately \$57,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Business-type Activities		
	Principal	Interest	Total
2015	\$ 185,000	\$ 53,409	\$ 238,409
2016	190,000	50,052	240,052
2017	195,000	46,615	241,615
2018	195,000	43,052	238,052
2019	200,000	39,490	239,490
2020-2024	1,060,000	141,312	1,201,312
2025-2029	770,914	44,395	815,309
2030	60,000	1,500	61,500
Total	\$ 2,855,914	\$ 419,825	\$ 3,275,739

Note 7 - Restricted Net Position

Restricted assets at June 30, 2014 consist of cash and cash equivalents that are restricted for future capital needs for the sewer treatment plant as required by Environmental Protection Agency regulations. Net position has been restricted for capital improvement related to this requirement.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2014

Note 8 - Commitments

The City entered into an agreement with Lenox Township for the annexation of land to be paid for by property taxes levied on the taxable value of the land. This agreement was modified during the year ended June 30, 1999. The modified agreement requires annual payments through September 1, 2018 totaling 3.6 mills of the total taxable value of the area annexed. The City paid \$104,495 during the year ended June 30, 2014 when the taxable value of the area was approximately \$31,000,000.

During the year ending June 30, 2015, the City will pay approximately \$113,000, based on an estimated taxable value of approximately \$31,000,000. Future installment payments have been estimated assuming inflationary increases of 3 percent per year after 2015.

The estimated annual payment requirements to service the agreement as of June 30, 2014 are as follows:

2015	\$	112,878
2016		116,264
2017		119,752
2018		123,345
2019		<u>127,045</u>
Total	\$	<u>599,284</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through four defined contribution plans: (1) 401 Money Purchase Plan and 457 Deferred Compensation Plan administered by ICMA-RC Retirement Trust, (2) John Hancock Venture Annuity administered by John Hancock Annuities, (3) Pension Trust administered by Lincoln Financial Group, and (4) MERS Defined Contribution Plan administered by Municipal Employees' Retirement System of Michigan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by council resolution, the City contributes 10 percent of employees' gross earnings, and employees have to contribute at least 5 percent. In accordance with these requirements, the City contributed \$142,793 during the current year and employees contributed \$126,366.

Required Supplemental Information

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,383,625	\$ 2,360,936	\$ 2,365,001	\$ 4,065
Licenses and permits	122,454	128,300	132,480	4,180
State-shared revenue and grants	501,080	511,680	512,555	875
Charges for services:				
Trash collection	281,000	286,695	286,695	-
Fees	13,300	21,625	23,716	2,091
Rentals	116,350	149,225	152,000	2,775
Fines and forfeitures:				
Traffic fines and penalties	24,000	24,000	18,492	(5,508)
Library fines	25,400	27,088	24,968	(2,120)
Interest	2,000	2,580	2,698	118
Other revenue:				
Special assessments	1,778	1,778	1,778	-
Donations	4,000	5,900	6,225	325
Other miscellaneous income	44,334	49,734	51,810	2,076
Total revenue	3,519,321	3,569,541	3,578,418	8,877
Expenditures - Current				
General government:				
City Council	22,365	22,365	21,545	820
City manager	69,939	78,389	74,300	4,089
Cable television	30,722	31,746	31,589	157
Treasurer	60,231	65,241	64,561	680
Assessor	35,281	35,281	34,420	861
Board of Review	17,035	65,998	65,351	647
Clerk	104,570	110,656	110,173	483
Elections	4,511	4,511	4,259	252
Buildings and grounds	31,412	32,086	31,030	1,056
Attorney	23,500	23,500	22,824	676
Building and grounds - Police	101,428	93,780	92,569	1,211
Total general government	500,994	563,553	552,621	10,932
Public safety:				
Police	1,148,513	1,135,470	1,113,611	21,859
Communications	217,104	237,773	234,559	3,214
Civil defense/emergency preparedness	1,300	1,411	1,411	-
Traffic safety	20,465	20,465	17,703	2,762
Building and trade inspections	76,524	78,409	76,125	2,284
Planning	67,268	68,813	68,795	18
Public service director	56,881	59,558	59,502	56
Total public safety	1,588,055	1,601,899	1,571,706	30,193

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (Continued)				
Public works:				
Department of Public Works	\$ 247,935	\$ 275,353	\$ 253,454	\$ 21,899
Refuse collection and disposal	277,150	277,852	276,345	1,507
Street lighting	118,635	118,665	118,664	1
Total public works	643,720	671,870	648,463	23,407
Recreation and culture - Library	275,818	272,824	259,049	13,775
Capital outlay	2,500	2,425	2,385	40
Debt service - Principal	116,407	116,407	104,495	11,912
Total expenditures	3,127,494	3,228,978	3,138,719	90,259
Excess of Revenue Over Expenditures	391,827	340,563	439,699	99,136
Other Financing Uses - Transfers out	(447,930)	(461,005)	(441,560)	19,445
Net Change in Fund Balance	(56,103)	(120,442)	(1,861)	79,691
Fund Balance - Beginning of year	1,185,188	1,185,188	1,185,188	-
Fund Balance - End of year	<u>\$ 1,129,085</u>	<u>\$ 1,064,746</u>	<u>\$ 1,183,327</u>	<u>\$ 118,581</u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 260,238	\$ 265,897	\$ 298,184	\$ 32,287
Other revenue - Other miscellaneous income	100	100	107	7
Total revenue	260,338	265,997	298,291	32,294
Expenditures - Current - Public works				
Routine maintenance	91,595	103,356	90,168	13,188
Winter maintenance	81,475	102,737	102,773	(36)
Traffic services	25,806	29,481	27,478	2,003
Administration	10,010	10,010	10,338	(328)
Total expenditures	208,886	245,584	230,757	14,827
Excess of Revenue Over Expenditures	51,452	20,413	67,534	47,121
Other Financing Uses - Transfers out	(50,000)	(50,000)	(50,000)	-
Net Change in Fund Balance	1,452	(29,587)	17,534	47,121
Fund Balance - Beginning of year	258,242	258,242	258,242	-
Fund Balance - End of year	<u>\$ 259,694</u>	<u>\$ 228,655</u>	<u>\$ 275,776</u>	<u>\$ 47,121</u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 86,282	\$ 86,282	\$ 105,994	\$ 19,712
Other revenue - Other miscellaneous income	100	661	1,046	385
Total revenue	86,382	86,943	107,040	20,097
Expenditures - Current - Public works				
Capital improvements	74,094	136,449	136,449	-
Routine maintenance	74,598	103,226	97,363	5,863
Winter maintenance	41,362	58,615	58,612	3
Traffic services	11,225	10,650	10,091	559
Administration	6,730	6,730	6,979	(249)
Capital outlay	-	16,077	16,076	1
Total expenditures	208,009	331,747	325,570	6,177
Excess of Expenditures Over Revenue	(121,627)	(244,804)	(218,530)	26,274
Other Financing Sources - Transfers in	124,094	202,426	196,547	(5,879)
Net Change in Fund Balance	2,467	(42,378)	(21,983)	20,395
Fund Balance - Beginning of year	73,448	73,448	73,448	-
Fund Balance - End of year	<u>\$ 75,915</u>	<u>\$ 31,070</u>	<u>\$ 51,465</u>	<u>\$ 20,395</u>

City of Richmond, Michigan

Note to Required Supplemental Information Year Ended June 30, 2014

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget on a departmental basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the first regular board meeting in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the second Monday in June, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The city manager is authorized to transfer budgeted amounts within the budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City's Major Streets Fund and Local Streets Fund incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance
Major Streets Fund:			
Winter maintenance	\$ 102,737	\$ 102,773	\$ (36)
Administration	10,010	10,338	(328)
Local Streets Fund - Administration	6,730	6,979	(249)

Other Supplemental Information

City of Richmond, Michigan

		Special Revenue Funds			
Assets		Fire Department	Mausoleum	Cemetery	Parks and Recreation
Cash and investments		<u>\$ 90,077</u>	<u>\$ 56,282</u>	<u>\$ 36,845</u>	<u>\$ 92,745</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable		\$ 31,967	\$ -	\$ 649	\$ 14,531
Due to component units		33,310	-	-	-
Total liabilities		65,277	-	649	14,531
Fund Balances					
Nonspendable		-	-	-	-
Restricted		-	56,282	-	-
Committed		24,800	-	36,196	78,214
Assigned		-	-	-	-
Total fund balances		24,800	56,282	36,196	78,214
Total liabilities and fund balances		<u>\$ 90,077</u>	<u>\$ 56,282</u>	<u>\$ 36,845</u>	<u>\$ 92,745</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

<u>Capital Projects Funds</u>		<u>Permanent Funds</u>	Total Nonmajor Governmental Funds
<u>Vehicle and Repairs</u>	<u>Street Improvement</u>	<u>Library Endowment</u>	<u>Funds</u>
\$ 92,160	\$ 629,879	\$ 63,117	\$ 1,061,105
\$ -	\$ -	\$ -	\$ 47,147
61,760	-	-	95,070
61,760	-	-	142,217
-	-	10,000	10,000
-	-	53,117	109,399
-	-	-	139,210
30,400	629,879	-	660,279
30,400	629,879	63,117	918,888
\$ 92,160	\$ 629,879	\$ 63,117	\$ 1,061,105

City of Richmond, Michigan

	Special Revenue Funds			
	Fire Department	Mausoleum	Cemetery	Parks and Recreation
Revenue				
Federal sources	\$ -	\$ -	\$ -	\$ 1,575
Charges for services	124,302	659	18,043	78,375
Interest	-	-	138	-
Other revenue:				
Donations	-	-	180	200
Other miscellaneous income	10	-	3,134	6,134
Total revenue	124,312	659	21,495	86,284
Expenditures - Current				
Public service	-	996	58,890	-
Public safety	184,863	-	-	-
Recreation and culture	-	-	-	225,698
Total expenditures	184,863	996	58,890	225,698
Excess of Revenue (Under) Over Expenditures	(60,551)	(337)	(37,395)	(139,414)
Other Financing Sources (Uses)				
Transfers in	111,566	-	36,500	161,094
Transfers out	-	-	-	-
Total other financing sources (uses)	111,566	-	36,500	161,094
Net Change in Fund Balances	51,015	(337)	(895)	21,680
Fund Balances (Deficit) - Beginning of year	(26,215)	56,619	37,091	56,534
Fund Balances - End of year	\$ 24,800	\$ 56,282	\$ 36,196	\$ 78,214

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2014

Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
Vehicle and Repairs	Street Improvement	Library Endowment	
\$ -	\$ -	\$ -	\$ 1,575
-	-	-	221,379
-	-	588	726
-	178,000	-	178,380
-	-	-	9,278
-	178,000	588	411,338
-	-	-	59,886
-	-	-	184,863
-	-	-	225,698
-	-	-	470,447
-	178,000	588	(59,109)
30,400	102,000	-	441,560
-	(146,547)	-	(146,547)
30,400	(44,547)	-	295,013
30,400	133,453	588	235,904
-	496,426	62,529	682,984
\$ 30,400	\$ 629,879	\$ 63,117	\$ 918,888