

City of Richmond, Michigan

**Financial Report
with Supplemental Information
June 30, 2012**

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

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 (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Richmond, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richmond, Michigan's basic financial statements. The accompanying 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

August 28, 2012

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, 2012. 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, 2012:

- Tax revenue, the City's largest single revenue source, totaled \$2.4 million in the General Fund this year, representing a decrease of 7.1 percent from last fiscal year. This decrease primarily reflects the decline in taxable values. The City's taxable value decreased from \$177 million in 2011 to \$170 million in 2012. 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 \$569,000 in the 2011/2012 fiscal year, based upon the City tax levy of 16.6526 mills.
- State-shared revenue, a major source of revenue for the City's General Fund, decreased for the year after breaking a long-term downward trend in the previous year. The City received \$421,132 in the 2011/2012 fiscal year, a decrease of \$20,353, or 4.6 percent, from last year. The current year amount represents a reduction of \$263,575, or more than 38 percent, from 2001/2002 funding levels. This revenue reduction is masked by the increase in tax revenue since 2001/2002, resulting from a growing tax base. However, the serious impact of decreased state-shared revenue will become more apparent as the tax base shrinks. 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 \$339,155, a reduction of \$40,468, or 10.7 percent, from the previous year. This reduction reflects a continuing effort by the City Council and administration to maintain a "pay-as-you-go" basis for funding the General Fund, streets, and capital projects to minimize the need to incur additional debt. The City now sets aside an amount equal to 2 mills of the general operating tax levy for completion of its 20 plus year street improvement program and reviews water and sewer rate structures annually to ensure an acceptable level of working capital is maintained, while providing the funding necessary to complete the utility capital improvement program.
- Total fund balance for the City's governmental funds increased by \$331,478, primarily as a result of decreases in expenditures.

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 assets 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, and Capital Projects Funds. Business-type activities include the Water and Sewer 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 assets (in thousands of dollars) as of June 30, 2012 and 2011:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets	\$ 2,515	\$ 2,206	\$ 4,461	\$ 4,603	\$ 6,976	\$ 6,809
Noncurrent assets - Capital assets	8,547	8,747	17,543	17,981	26,090	26,728
Total assets	11,062	10,953	22,004	22,584	33,066	33,537
Liabilities						
Current liabilities	320	413	9	280	329	693
Long-term liabilities	339	380	3,265	3,362	3,604	3,742
Total liabilities	659	793	3,274	3,642	3,933	4,435
Net Assets						
Invested in capital assets - Net of related debt	8,399	8,574	14,322	14,665	22,721	23,239
Restricted	490	426	519	499	1,009	925
Unrestricted	1,514	1,160	3,889	3,778	5,403	4,938
Total net assets	<u>\$ 10,403</u>	<u>\$ 10,160</u>	<u>\$ 18,730</u>	<u>\$ 18,942</u>	<u>\$ 29,133</u>	<u>\$ 29,102</u>

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets for both governmental and business-type activities total \$29.1 million for fiscal year 2012. Net assets are further segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted for a specific purpose/use and invested in capital assets, total approximately \$23.7 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$5.4 million.

The following table shows the change in net assets for the years ended June 30, 2012 and 2011 (in thousands of dollars):

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenue:						
Charges for services	\$ 998	\$ 1,006	\$ 1,706	\$ 1,733	\$ 2,704	\$ 2,739
Operating grants and contributions	454	380	-	-	454	380
Capital grants and contributions	202	549	-	4	202	553
General revenue:						
Property taxes	2,354	2,533	-	-	2,354	2,533
State-shared revenue	421	441	-	-	421	441
Interest	5	10	4	9	9	19
Franchise fees	86	85	-	-	86	85
Miscellaneous	34	46	-	-	34	46
Contributions to permanent endowments	-	2	-	-	-	2
Total revenue	4,554	5,052	1,710	1,746	6,264	6,798
Program Expenses						
General government	939	969	-	-	939	969
Public safety	1,822	1,810	-	-	1,822	1,810
Public works	923	1,083	-	-	923	1,083
Recreation and culture	541	638	-	-	541	638
Community development	86	66	-	-	86	66
Interest on long-term debt	-	1	-	-	-	1
Water and sewer	-	-	1,922	1,924	1,922	1,924
Total program expenses	4,311	4,567	1,922	1,924	6,233	6,491
Change in Net Assets	\$ 243	\$ 485	\$ (212)	\$ (178)	\$ 31	\$ 307

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

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.

The cost of providing services for governmental activities was approximately \$4.3 million for fiscal year 2012. Additionally, revenue for governmental activities totaled approximately \$4.6 million, which netted to an increase in net assets for the year of approximately \$246,000.

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 \$1.2 million in 2012. 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 \$368,000. During the year ended June 30, 2012, the most significant budget amendments increased General Fund police expenditures as well as Major and Local Streets state revenue and routine maintenance expenses.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2012, the City had \$26.1 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.

Long-term Debt

The City's total long-term indebtedness as of June 30, 2012 is approximately \$3.6 million. Of this amount, \$3.2 million represents general obligation bonds and \$147,040 represents capital lease obligations. See Note 6 for additional details.

Economic Factors and Next Year's Budgets and Rates

At this time, it appears the national economy is struggling to demonstrate any indications of a strong recovery. Unemployment remains high throughout the nation as well as in Michigan. The State continues to deal with depleted fiscal reserves as it lags behind the national recovery. During fiscal year 2012 and into 2013, the City anticipates a slight reduction 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 of the end of June 2012, the Michigan state police have closed the Richmond state police post. The closure of the post will reduce General Fund revenue by \$217,000 annually. 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 Assets June 30, 2012

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 2,364,284	\$ 3,536,212	\$ 5,900,496	\$ 2,601,223
Receivables:				
Customers	-	405,583	405,583	-
Due from other governmental units	138,638	-	138,638	147,040
Special assessments	12,446	-	12,446	-
Due from primary government	-	-	-	99,932
Restricted assets (Notes 3 and 8)	-	518,779	518,779	-
Land held for resale	-	-	-	104,206
Capital assets (Note 4):				
Assets not subject to depreciation	120,000	157,042	277,042	-
Assets subject to depreciation	<u>8,426,204</u>	<u>17,386,455</u>	<u>25,812,659</u>	<u>2,803,010</u>
Total assets	<u>11,061,572</u>	<u>22,004,071</u>	<u>33,065,643</u>	<u>5,755,411</u>
Liabilities				
Accounts payable	163,153	8,953	172,106	124,567
Due to component units	99,932	-	99,932	-
Accrued liabilities and other	56,300	-	56,300	-
Noncurrent liabilities (Note 6):				
Due within one year	92,201	195,422	287,623	-
Due in more than one year	<u>246,954</u>	<u>3,069,709</u>	<u>3,316,663</u>	<u>-</u>
Total liabilities	<u>658,540</u>	<u>3,274,084</u>	<u>3,932,624</u>	<u>124,567</u>
Net Assets				
Invested in capital assets - Net of related debt	8,399,164	14,322,583	22,721,747	2,803,010
Restricted for:				
Streets and highways	321,219	-	321,219	-
Capital projects	49,072	518,779	567,851	-
Library endowments	62,529	-	62,529	-
Mausoleum	56,791	-	56,791	-
Unrestricted	<u>1,514,257</u>	<u>3,888,625</u>	<u>5,402,882</u>	<u>2,827,834</u>
Total net assets	<u>\$ 10,403,032</u>	<u>\$ 18,729,987</u>	<u>\$ 29,133,019</u>	<u>\$ 5,630,844</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	\$ 939,102	\$ 15,284	\$ 76,533	\$ -
Public safety	1,821,629	414,514	-	-
Public works	923,361	391,557	335,540	201,778
Community development	85,660	37,391	31,706	-
Recreation and culture	541,389	139,322	10,552	-
Total governmental activities	4,311,141	998,068	454,331	201,778
Business-type activities:				
Water	808,004	730,314	-	-
Sewer	1,113,967	975,282	-	-
Total business-type activities	1,921,971	1,705,596	-	-
Total primary government	<u>\$ 6,233,112</u>	<u>\$ 2,703,664</u>	<u>\$ 454,331</u>	<u>\$ 201,778</u>
Component unit - Tax Increment Finance Authority	<u>\$ 590,982</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 Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2012

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit - Tax Increment Finance Authority
\$ (847,285)	\$ -	\$ (847,285)	\$ -
(1,407,115)	-	(1,407,115)	-
5,514	-	5,514	-
(16,563)	-	(16,563)	-
(391,515)	-	(391,515)	-
(2,656,964)	-	(2,656,964)	-
-	(77,690)	(77,690)	-
-	(138,685)	(138,685)	-
-	(216,375)	(216,375)	-
(2,656,964)	(216,375)	(2,873,339)	-
-	-	-	(590,982)
2,353,569	-	2,353,569	671,938
421,132	-	421,132	-
5,193	3,954	9,147	4,960
86,368	-	86,368	-
34,073	-	34,073	68
2,900,335	3,954	2,904,289	676,966
243,371	(212,421)	30,950	85,984
10,159,661	18,942,408	29,102,069	5,544,860
\$ 10,403,032	\$ 18,729,987	\$ 29,133,019	\$ 5,630,844

City of Richmond, Michigan

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Major Streets	Local Streets	Other Nonmajor Governmental Funds	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,165,266	\$ 226,212	\$ 71,995	\$ 900,811	\$ 2,364,284
Receivables:					
Special assessments receivable	12,446	-	-	-	12,446
Due from other governmental units	99,842	20,533	6,747	11,516	138,638
Total assets	<u>\$ 1,277,554</u>	<u>\$ 246,745</u>	<u>\$ 78,742</u>	<u>\$ 912,327</u>	<u>\$ 2,515,368</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 136,479	\$ 2,668	\$ 1,600	\$ 22,406	\$ 163,153
Due to component units	-	-	-	99,932	99,932
Accrued liabilities and other	56,300	-	-	-	56,300
Deferred revenue (Note 9)	88,979	-	-	-	88,979
Total liabilities	281,758	2,668	1,600	122,338	408,364
Fund Balances					
Nonspendable - Library endowment	-	-	-	10,000	10,000
Restricted:					
Roads	-	244,077	77,142	-	321,219
Library	-	-	-	52,529	52,529
Sidewalk assistance	-	-	-	49,072	49,072
Mausoleum	-	-	-	56,791	56,791
Committed:					
Parks and recreation	-	-	-	36,876	36,876
Cemetery	-	-	-	53,128	53,128
Assigned:					
Subsequent year's budget	307,125	-	-	-	307,125
Capital projects	-	-	-	605,218	605,218
Unassigned	688,671	-	-	(73,625)	615,046
Total fund balances	<u>995,796</u>	<u>244,077</u>	<u>77,142</u>	<u>789,989</u>	<u>2,107,004</u>
Total liabilities and fund balances	<u>\$ 1,277,554</u>	<u>\$ 246,745</u>	<u>\$ 78,742</u>	<u>\$ 912,327</u>	<u>\$ 2,515,368</u>

City of Richmond, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **June 30, 2012**

Fund Balance Reported in Governmental Funds	\$ 2,107,004
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	8,546,204
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	88,979
Capital lease obligations are not due and payable in the current period and are not reported in the funds	(147,040)
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>(192,115)</u>
Net Assets of Governmental Activities	<u>\$ 10,403,032</u>

City of Richmond, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2012

	General Fund	Major Streets	Local Streets	Other Nonmajor Governmental Funds	Total
Revenue					
Property taxes	\$ 2,353,569	\$ -	\$ -	\$ -	\$ 2,353,569
Licenses and permits	125,069	-	-	-	125,069
Federal sources	-	-	-	32,384	32,384
State-shared revenue and grants	434,777	245,075	92,243	-	772,095
Charges for services	609,845	-	270	256,878	866,993
Fines and forfeitures	56,227	-	-	-	56,227
Interest	4,001	-	-	1,192	5,193
Other revenue:					
Special assessments	1,778	-	-	-	1,778
Donations	6,075	-	-	201,044	207,119
Other miscellaneous income	51,388	478	274	7,190	59,330
Total revenue	<u>3,642,729</u>	<u>245,553</u>	<u>92,787</u>	<u>498,688</u>	<u>4,479,757</u>
Expenditures - Current					
General government	538,258	-	-	-	538,258
Public service	-	-	-	84,222	84,222
Public safety	1,720,442	-	-	187,349	1,907,791
Public works	638,840	134,860	142,630	-	916,330
Recreation and culture	257,625	-	-	262,337	519,962
Capital outlay	-	-	-	32,313	32,313
Debt service - Principal	125,597	-	-	26,020	151,617
Total expenditures	<u>3,280,762</u>	<u>134,860</u>	<u>142,630</u>	<u>592,241</u>	<u>4,150,493</u>
Excess of Revenue Over (Under) Expenditures	361,967	110,693	(49,843)	(93,553)	329,264
Other Financing Sources (Uses)					
Transfers in (Note 5)	-	-	30,000	421,260	451,260
Transfers out (Note 5)	(421,260)	(30,000)	-	-	(451,260)
Total other financing (uses) sources	<u>(421,260)</u>	<u>(30,000)</u>	<u>30,000</u>	<u>421,260</u>	<u>-</u>
Net Change in Fund Balances	(59,293)	80,693	(19,843)	327,707	329,264
Fund Balances - Beginning of year	<u>1,055,089</u>	<u>163,384</u>	<u>96,985</u>	<u>462,282</u>	<u>1,777,740</u>
Fund Balances - End of year	<u>\$ 995,796</u>	<u>\$ 244,077</u>	<u>\$ 77,142</u>	<u>\$ 789,989</u>	<u>\$ 2,107,004</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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 329,264

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	187,808
Depreciation expense	(388,924)

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)
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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	76,533
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Payment on capital lease is an expenditure in the governmental funds, but not in the statement of activities	26,020
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Decreases in accumulated employee sick and vacation pay do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	<u>14,448</u>
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Change in Net Assets of Governmental Activities \$ 243,371

City of Richmond, Michigan

Proprietary Funds Statement of Net Assets June 30, 2012

	Major Enterprise Funds		Nonmajor Enterprise - WWTP Equipment Replacement	Total
	Water	Sewer		
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 272,819	\$ 2,637,861	\$ 625,532	\$ 3,536,212
Receivables - Customers	182,314	223,269	-	405,583
Total current assets	455,133	2,861,130	625,532	3,941,795
Noncurrent assets:				
Restricted assets (Note 8)	-	518,779	-	518,779
Capital assets (Note 4):				
Assets not subject to depreciation	128,983	28,059	-	157,042
Assets subject to depreciation	5,624,220	11,762,235	-	17,386,455
Total noncurrent assets	5,753,203	12,309,073	-	18,062,276
Total assets	6,208,336	15,170,203	625,532	22,004,071
Liabilities				
Current liabilities:				
Accounts payable	6,338	2,615	-	8,953
Current portion of compensated absences (Note 6)	9,933	5,489	-	15,422
Current portion of long-term debt (Note 6)	-	180,000	-	180,000
Total current liabilities	16,271	188,104	-	204,375
Noncurrent liabilities:				
Long-term portion of compensated absences (Note 6)	16,819	11,976	-	28,795
Long-term debt (Note 6)	-	3,040,914	-	3,040,914
Total noncurrent liabilities	16,819	3,052,890	-	3,069,709
Total liabilities	33,090	3,240,994	-	3,274,084
Net Assets				
Invested in capital assets - Net of related debt	5,753,203	8,569,380	-	14,322,583
Restricted (Note 8)	-	518,779	-	518,779
Unrestricted	422,043	2,841,050	625,532	3,888,625
Total net assets	\$ 6,175,246	\$ 11,929,209	\$ 625,532	\$ 18,729,987

City of Richmond, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2012

	Major Enterprise Funds		Nonmajor Enterprise - WWTP Equipment Replacement	Total
	Water	Sewer		
Operating Revenue				
Usage fees	\$ 707,690	\$ 940,412	\$ -	\$ 1,648,102
Tap-in fees	35	280	-	315
Charges for services	4,253	-	-	4,253
Penalties	10,471	14,046	-	24,517
Miscellaneous	7,865	20,544	-	28,409
Total operating revenue	730,314	975,282	-	1,705,596
Operating Expenses				
Water production	146,253	-	-	146,253
Sewer treatment plant	-	415,421	6,895	422,316
Infrastructure maintenance	2,571	-	-	2,571
Administration	114,329	120,224	-	234,553
Water system	375,257	-	-	375,257
Sewer system	-	144,504	-	144,504
Depreciation	169,594	365,170	-	534,764
Total operating expenses	808,004	1,045,319	6,895	1,860,218
Operating Loss	(77,690)	(70,037)	(6,895)	(154,622)
Nonoperating Revenue (Expenses)				
Investment income	964	1,367	1,623	3,954
Interest expense	-	(61,753)	-	(61,753)
Loss - Before transfers	(76,726)	(130,423)	(5,272)	(212,421)
Transfers In (Note 5)	19,740	-	27,025	46,765
Transfers Out (Note 5)	-	(46,765)	-	(46,765)
Change in Net Assets	(56,986)	(177,188)	21,753	(212,421)
Net Assets - Beginning of year	6,232,232	12,106,397	603,779	18,942,408
Net Assets - End of year	<u>\$ 6,175,246</u>	<u>\$ 11,929,209</u>	<u>\$ 625,532</u>	<u>\$ 18,729,987</u>

City of Richmond, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2012

	Major Enterprise Funds		Nonmajor Enterprise - WWTP Equipment Replacement	Total
	Water	Sewer		
Cash Flows from Operating Activities				
Receipts from customers	\$ 728,198	\$ 973,256	\$ -	\$ 1,701,454
Payments to suppliers, employees, and other funds	(836,120)	(754,982)	(6,895)	(1,597,997)
Net cash (used in) provided by operating activities	(107,922)	218,274	(6,895)	103,457
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	19,740	-	27,025	46,765
Transfers to other funds	-	(46,765)	-	(46,765)
Net cash provided by (used in) noncapital financing activities	19,740	(46,765)	27,025	-
Cash Flows from Capital and Related Financing Activities				
Issuance of bonds	-	84,740	-	84,740
Purchase of capital assets	(97,311)	-	-	(97,311)
Principal and interest paid on capital debt	-	(241,753)	-	(241,753)
Net cash used in capital and related financing activities	(97,311)	(157,013)	-	(254,324)
Cash Flows from Investing Activities - Interest received on investments	964	1,367	1,623	3,954
Net (Decrease) Increase in Cash and Cash Equivalents	(184,529)	15,863	21,753	(146,913)
Cash and Cash Equivalents - Beginning of year	457,348	3,140,777	603,779	4,201,904
Cash and Cash Equivalents - End of year	<u>\$ 272,819</u>	<u>\$ 3,156,640</u>	<u>\$ 625,532</u>	<u>\$ 4,054,991</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 272,819	\$ 2,637,861	\$ 625,532	\$ 3,536,212
Restricted cash	-	518,779	-	518,779
Total cash and cash equivalents	<u>\$ 272,819</u>	<u>\$ 3,156,640</u>	<u>\$ 625,532</u>	<u>\$ 4,054,991</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (77,690)	\$ (70,037)	\$ (6,895)	\$ (154,622)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	169,594	365,170	-	534,764
Changes in assets and liabilities:				
Receivables	(2,116)	(2,026)	-	(4,142)
Accrued liabilities	(449)	(678)	-	(1,127)
Accounts payable	(197,261)	(74,155)	-	(271,416)
Net cash (used in) provided by operating activities	<u>\$ (107,922)</u>	<u>\$ 218,274</u>	<u>\$ (6,895)</u>	<u>\$ 103,457</u>

City of Richmond, Michigan

Fiduciary Funds Statement of Fiduciary Assets and Liabilities Trust and Agency Fund June 30, 2012

Assets	
Cash (Note 3)	\$ 3,004
Taxes receivable	<u>482</u>
Total assets	<u>\$ 3,486</u>
Liabilities - Accrued liabilities and other	<u>\$ 3,486</u>

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Richmond, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City 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. As a discretely presented component unit, it 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 following component units are reported within the component units column to emphasize that they are legally separate from the City:

- a. The Tax Increment Finance 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.
- b. The Economic Development 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 Economic Development Corporation was inactive during 2012 and has no assets or liabilities.

Government-wide and Fund Financial Statements

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

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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

The Major Streets Special Revenue Fund 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 Special Revenue Fund accounts for the activities related to local street construction. The City receives state gas and weight tax collection allocation to fund construction.

The City reports the following major proprietary funds:

The Water Fund accounts for the results of operations that provide water services to citizens and is financed by a user charge for the provision of those services.

The Sewer Fund accounts for the results of operations that provide sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following funds:

Special Revenue Funds - Special revenue funds account for the revenue and expenditures related to fire, housing and urban development, mausoleum, cemetery, and parks and recreation.

Capital Projects Funds - Capital projects funds account for the development of capital facilities and equipment other than those financed by the operation of a proprietary fund. These projects include vehicle and repairs, equipment replacement, special assessments, and street improvements.

Agency Funds - Agency funds are used to 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.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the City's policy is to first apply restricted resources unless unrestricted resources have been transferred in for that particular expense. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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 2011 taxable valuation of the City totaled \$169.9 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 \$2,322,285 for operating, which is recognized in the General Fund.

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

Assets, Liabilities, and Net Assets or Equity

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.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Noncurrent Receivables - Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Inventories and Prepaid Items - Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), 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:

Buildings and improvements	5 to 50 years
Vehicles and equipment	5 to 40 year
Utility systems	50 years
Infrastructure - Roads	25 years

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

Compensated Absences (Vacation and Sick Leave) - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. 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.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned** - Intent to spend resources on specific purposes expressed by the City Council

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

- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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.

Other accounting policies are disclosed in other notes to the financial statements.

Upcoming Reporting Change - In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into the GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65 will be implemented for the City as of fiscal year 2013-2014.

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City, this standard will be adopted for the 2013-2014 fiscal year.

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, 2012 is as follows:

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Accumulated Expenditures Over Revenue - July 1, 2011	\$ (267,771)
Current year revenue	37,238
Current year expenditures - Direct costs	<u>73,957</u>
Excess of expenditures over revenue	<u>(36,719)</u>
Accumulated Expenditures Over Revenue - June 30, 2012	<u>\$ (304,490)</u>

Fund Deficits - The Fire Department Fund had a fund balance deficit of \$73,625 as of June 30, 2012. The deficit relates to an amount owed to the Tax Increment Finance Authority for the purchase of a fire truck in fiscal year 2010. The deficit will be eliminated as the Fire Department Fund uses future charges for services to repay the Tax Increment Finance Authority.

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.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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 \$1,164,901 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 \$760,818 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.

Note 4 - Capital Assets

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

	Balance July 1, 2011	Transfers	Additions	Disposals	Balance June 30, 2012
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 120,000	\$ -	\$ -	\$ -	\$ 120,000
Construction in progress	5,043	(5,043)	-	-	-
Subtotal	125,043	(5,043)	-	-	120,000
Capital assets being depreciated:					
Infrastructure	3,631,478	5,043	27,378	-	3,663,899
Buildings and improvements	4,982,221	-	-	-	4,982,221
Vehicles and equipment	3,976,597	-	160,430	-	4,137,027
Subtotal	12,590,296	5,043	187,808	-	12,783,147
Accumulated depreciation:					
Infrastructure	228,276	-	13,029	-	241,305
Buildings and improvements	1,279,046	-	69,410	-	1,348,456
Vehicles and equipment	2,460,697	-	306,485	-	2,767,182
Subtotal	3,968,019	-	388,924	-	4,356,943
Net capital assets being depreciated	8,622,277	5,043	(201,116)	-	8,426,204
Net capital assets	\$ 8,747,320	\$ -	\$ (201,116)	\$ -	\$ 8,546,204

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2011	Transfers	Additions	Disposals	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 157,042	\$ -	\$ -	\$ -	\$ 157,042
Construction in progress	193,145	(193,145)	-	-	-
Subtotal	350,187	(193,145)	-	-	157,042
Capital assets being depreciated:					
Utility systems	16,070,241	193,145	97,311	-	16,360,697
Buildings	9,482,050	-	-	-	9,482,050
Vehicles and equipment	735,431	-	-	-	735,431
Subtotal	26,287,722	193,145	97,311	-	26,578,178
Accumulated depreciation:					
Utility systems	4,499,369	-	388,471	-	4,887,840
Buildings	3,512,556	-	123,981	-	3,636,537
Vehicles and equipment	645,034	-	22,312	-	667,346
Subtotal	8,656,959	-	534,764	-	9,191,723
Net capital assets being depreciated	17,630,763	193,145	(437,453)	-	17,386,455
Net capital assets	\$ 17,980,950	\$ -	\$ (437,453)	\$ -	\$ 17,543,497
Component Units	Balance July 1, 2011	Transfers	Additions	Disposals	Balance June 30, 2012
Capital assets being depreciated:					
Infrastructure	\$ 1,801,442	\$ -	\$ 311,445	\$ -	\$ 2,112,887
Buildings and improvements	106,972	-	60,885	-	167,857
Furniture and fixtures	60,250	-	96,692	-	156,942
Land improvements	729,704	-	-	-	729,704
Subtotal	2,698,368	-	469,022	-	3,167,390
Accumulated depreciation:					
Infrastructure	166,222	-	35,053	-	201,275
Buildings and improvements	72,790	-	13,427	-	86,217
Furniture and fixtures	29,213	-	7,582	-	36,795
Land improvements	28,678	-	11,415	-	40,093
Subtotal	296,903	-	67,477	-	364,380
Net capital assets being depreciated	2,401,465	-	401,545	-	2,803,010
Net capital assets	\$ 2,401,465	\$ -	\$ 401,545	\$ -	\$ 2,803,010

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 273,432
Public safety	89,454
Public works	3,163
Recreation and culture	22,875

Total governmental activities	<u>\$ 388,924</u>
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Business-type activities:

Water lines	\$ 169,594
Sewer lines	365,170

Total business-type activities	<u>\$ 534,764</u>
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Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2012, \$99,932 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 three equal payments through 2015.

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	\$ 421,260
Major Streets Fund	Local Streets Fund	30,000
Sewer Fund	Water Fund	19,740
	Nonmajor enterprise fund	<u>27,025</u>
	Total Sewer Fund	<u>46,765</u>
	Total	<u>\$ 498,025</u>

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

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

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:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Capital lease obligation - Community Center:							
Amount of issue - \$365,405		\$16,940 -					
Maturing through 2018	- %	\$26,020	\$ 173,060	\$ -	\$ 26,020	\$ 147,040	\$ 26,020
Compensated absences			206,563	-	14,448	192,115	66,181
Total governmental activities			\$ 379,623	\$ -	\$ 40,468	\$ 339,155	\$ 92,201
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	\$ 835,260	\$ 84,740	\$ 40,000	\$ 880,000	\$ 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	2,480,914	-	140,000	2,340,914	140,000
Total bonds payable			3,316,174	84,740	180,000	3,220,914	180,000
Compensated absences			45,344	-	1,127	44,217	15,422
Total business-type activities			\$3,361,518	\$ 84,740	\$ 181,127	\$3,265,131	\$ 195,422

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.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

Note 6 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$62,000. 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
2013	\$ 180,000	\$ 60,093	\$ 240,093
2014	185,000	56,765	241,765
2015	185,000	53,409	238,409
2016	190,000	50,052	240,052
2017	195,000	46,615	241,615
2018-2022	1,020,000	178,943	1,198,943
2023-2027	1,090,914	81,930	1,172,844
2028-2030	175,000	8,875	183,875
Total	<u>\$ 3,220,914</u>	<u>\$ 536,682</u>	<u>\$ 3,757,596</u>

Note 7 - Capital Leases

The City has entered into a lease agreement as lessee for financing the purchase of a community center. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending June 30	Amount
2013	\$ 26,020
2014	26,020
2015	26,020
2016	26,020
2017	26,020
2018	16,940
Total minimum lease payments	<u>147,040</u>
Net present value	<u>\$ 147,040</u>

City of Richmond, Michigan

Notes to Financial Statements June 30, 2012

Note 8 - Restricted Net Assets

Restricted assets at June 30, 2012 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 assets have been restricted for capital improvement related to this requirement.

Note 9 - Receivables and Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue of \$12,446 relates to special assessment receivables and \$76,533 relates to intergovernmental receivables. Both amounts are unavailable to liquidate liabilities of the current period.

Note 10 - 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 \$125,597 during the year ended June 30, 2012, when the taxable value of the area was approximately \$34,913,000.

During the year ending June 30, 2013, the City will pay approximately \$122,000, based on an estimated taxable value of \$33,818,000. Future installment payments have been estimated assuming inflationary increases of 3 percent per year after 2013.

The estimated annual payment requirements to service the agreement as of June 30, 2012 are as follows:

2013	\$	121,743
2014		125,395
2015		129,157
2016		133,032
2017		137,023
2018-2019		<u>286,501</u>
Total	\$	<u>932,851</u>

Note 11 - 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 four 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 12 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through a defined contribution plan. 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 \$158,631 during the current year and employees contributed \$129,367.

Required Supplemental Information

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,425,526	\$ 2,425,102	\$ 2,353,569	\$ (71,533)
Licenses and permits	99,788	99,788	125,069	25,281
State-shared revenue and grants	336,093	336,093	434,777	98,684
Charges for services:				
Trash collection	275,000	275,000	276,432	1,432
Fees	12,000	12,000	17,068	5,068
Rentals	183,327	183,327	316,345	133,018
Fines and forfeitures:				
Traffic fines and penalties	22,500	22,500	30,397	7,897
Library fines	24,100	24,100	25,830	1,730
Interest	8,000	8,000	4,001	(3,999)
Other revenue:				
Special assessments	1,778	1,778	1,778	-
Donations	3,000	3,000	6,075	3,075
Other miscellaneous income	335,100	335,100	51,388	(283,712)
Total revenue	3,726,212	3,725,788	3,642,729	(83,059)
Expenditures - Current				
General government:				
City Council	22,415	22,841	22,979	(138)
City manager	109,378	109,378	107,035	2,343
Cable television	58,516	58,516	31,238	27,278
Treasurer	64,552	64,552	64,139	413
Assessor	35,434	35,434	34,944	490
Board of Review	2,435	16,910	1,352	15,558
Clerk	96,191	98,116	101,478	(3,362)
Elections	9,429	7,871	7,461	410
Buildings and grounds	43,314	42,920	42,072	848
Attorney	24,750	29,637	30,514	(877)
Building and grounds - Police	112,632	112,632	95,046	17,586
Total general government	579,046	598,807	538,258	60,549
Public safety:				
Police	1,093,868	1,205,435	1,235,092	(29,657)
Communications	253,144	253,184	269,774	(16,590)
Civil defense/emergency preparedness	1,300	1,300	850	450
Traffic safety	35,127	35,127	18,512	16,615
Building code enforcement	71,066	73,033	74,563	(1,530)
Planning	65,370	65,370	66,971	(1,601)
Public service director	53,978	53,978	54,680	(702)
Total public safety	1,573,853	1,687,427	1,720,442	(33,015)

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Expenditures - Current (Continued)				
Public works:				
Department of Public Works	\$ 287,790	\$ 283,628	\$ 257,242	\$ 26,386
Refuse collection and disposal	255,350	255,350	264,450	(9,100)
Street lighting	<u>104,500</u>	<u>104,500</u>	<u>117,148</u>	<u>(12,648)</u>
Total public works	647,640	643,478	638,840	4,638
Recreation and culture - Library	303,273	299,273	257,625	41,648
Debt service - Principal	<u>164,685</u>	<u>125,685</u>	<u>125,597</u>	<u>88</u>
Total expenditures	<u>3,268,497</u>	<u>3,354,670</u>	<u>3,280,762</u>	<u>73,908</u>
Excess of Revenue Over Expenditures	457,715	371,118	361,967	(9,151)
Other Financing Uses - Transfers out	<u>(509,131)</u>	<u>(522,167)</u>	<u>(421,260)</u>	<u>(100,907)</u>
Net Change in Fund Balance	(51,416)	(151,049)	(59,293)	91,756
Fund Balance - Beginning of year	<u>1,055,089</u>	<u>1,055,089</u>	<u>1,055,089</u>	-
Fund Balance - End of year	<u><u>\$ 1,003,673</u></u>	<u><u>\$ 904,040</u></u>	<u><u>\$ 995,796</u></u>	<u><u>\$ 91,756</u></u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 225,624	\$ 243,526	\$ 245,075	\$ 1,549
Other revenue - Other miscellaneous income	200	475	478	3
Total revenue	225,824	244,001	245,553	1,552
Expenditures - Current - Public works				
Capital improvements	-	-	1,417	(1,417)
Routine maintenance	72,933	99,347	77,608	21,739
Winter maintenance	70,384	28,248	26,400	1,848
Traffic services	27,522	22,903	19,826	3,077
Administration	9,554	9,554	9,609	(55)
Total expenditures	180,393	160,052	134,860	25,192
Excess of Revenue Over Expenditures	45,431	83,949	110,693	26,744
Other Financing Uses - Transfers out	(30,000)	(30,000)	(30,000)	-
Net Change in Fund Balance	15,431	53,949	80,693	26,744
Fund Balance - Beginning of year	163,384	163,384	163,384	-
Fund Balance - End of year	<u>\$ 178,815</u>	<u>\$ 217,333</u>	<u>\$ 244,077</u>	<u>\$ 26,744</u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 76,002	\$ 83,482	\$ 92,243	\$ 8,761
Charges for services	-	270	270	-
Other revenue - Other miscellaneous income	100	275	274	(1)
Total revenue	76,102	84,027	92,787	8,760
Expenditures - Current - Public works				
Capital improvements	-	22,107	22,107	-
Routine maintenance	59,799	100,487	93,764	6,723
Winter maintenance	35,293	13,681	13,680	1
Traffic services	9,212	6,226	6,635	(409)
Administration	6,411	6,411	6,444	(33)
Total expenditures	110,715	148,912	142,630	6,282
Excess of Expenditures Over Revenue	(34,613)	(64,885)	(49,843)	15,042
Other Financing Sources - Transfers in	30,000	30,000	30,000	-
Net Change in Fund Balance	(4,613)	(34,885)	(19,843)	15,042
Fund Balance - Beginning of year	96,985	96,985	96,985	-
Fund Balance - End of year	<u>\$ 92,372</u>	<u>\$ 62,100</u>	<u>\$ 77,142</u>	<u>\$ 15,042</u>

City of Richmond, Michigan

Note to Required Supplemental Information Year Ended June 30, 2012

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 General Fund incurred significant expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance
Clerk	\$ 98,116	\$ 101,478	\$ (3,362)
Police	1,205,435	1,235,092	(29,657)
Communications	253,184	269,774	(16,590)
Refuse collection and disposal	255,350	264,450	(9,100)
Street lighting	104,500	117,148	(12,648)

The clerk, police, and communications variances relate to employee benefits paid exceeding the budgeted amounts. The refuse collection and disposal and street lighting variances relate to actual charges from vendors exceeding amounts budgeted.

Other Supplemental Information

City of Richmond, Michigan

	Special Revenue Funds					
	Fire Department	Mausoleum	Housing and Urban Development	Cemetery	Parks and Recreation	Library Endowment
Assets						
Cash and investments	\$ 29,858	\$ 56,791	\$ -	\$ 53,675	\$ 43,668	\$ 62,529
Due from other governmental units	11,516	-	-	-	-	-
Total assets	\$ 41,374	\$ 56,791	\$ -	\$ 53,675	\$ 43,668	\$ 62,529
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 15,067	\$ -	\$ -	\$ 547	\$ 6,792	\$ -
Due to component units	99,932	-	-	-	-	-
Total liabilities	114,999	-	-	547	6,792	-
Fund Balances (Deficit)						
Nonspendable	-	-	-	-	-	10,000
Restricted	-	56,791	-	-	-	52,529
Committed	-	-	-	53,128	36,876	-
Assigned	-	-	-	-	-	-
Unassigned	(73,625)	-	-	-	-	-
Total fund balances (deficit)	(73,625)	56,791	-	53,128	36,876	62,529
Total liabilities and fund balances (deficit)	\$ 41,374	\$ 56,791	\$ -	\$ 53,675	\$ 43,668	\$ 62,529

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

<u>Capital Projects Funds</u>			Total Nonmajor Governmental Funds
<u>Vehicle and Repairs</u>	<u>Street Improvement</u>	<u>Sidewalk Assistance</u>	
\$ 73,561	\$ 531,657	\$ 49,072	\$ 900,811
-	-	-	11,516
<u>\$ 73,561</u>	<u>\$ 531,657</u>	<u>\$ 49,072</u>	<u>\$ 912,327</u>
\$ -	\$ -	\$ -	\$ 22,406
-	-	-	99,932
-	-	-	122,338
-	-	-	10,000
-	-	49,072	158,392
-	-	-	90,004
73,561	531,657	-	605,218
-	-	-	(73,625)
<u>73,561</u>	<u>531,657</u>	<u>49,072</u>	<u>789,989</u>
<u>\$ 73,561</u>	<u>\$ 531,657</u>	<u>\$ 49,072</u>	<u>\$ 912,327</u>

City of Richmond, Michigan

	Special Revenue Funds					
	Fire Department	Mausoleum	Housing and Urban Development	Cemetery	Parks and Recreation	Library Endowment
Revenue						
Federal sources	\$ -	\$ -	\$ 26,020	\$ -	\$ 6,364	\$ -
Charges for services	117,416	1,889	-	35,340	102,233	-
Interest	-	-	-	421	-	771
Other revenue:						
Donations	-	-	-	-	1,044	-
Other miscellaneous income	410	-	-	162	6,618	-
Total revenue	117,826	1,889	26,020	35,923	116,259	771
Expenditures - Current						
Public service	-	363	-	83,859	-	-
Public safety	187,349	-	-	-	-	-
Recreation and culture	-	-	-	-	262,337	-
Capital outlay	-	-	-	-	-	-
Debt service - Principal	-	-	26,020	-	-	-
Total expenditures	187,349	363	26,020	83,859	262,337	-
Excess of Revenue (Under) Over Expenditures	(69,523)	1,526	-	(47,936)	(146,078)	771
Other Financing Sources - Transfers in	107,689	-	-	35,000	150,000	-
Net Change in Fund Balances	38,166	1,526	-	(12,936)	3,922	771
Fund Balances (Deficit) - Beginning of year	(111,791)	55,265	-	66,064	32,954	61,758
Fund Balances (Deficit) - End of year	\$ (73,625)	\$ 56,791	\$ -	\$ 53,128	\$ 36,876	\$ 62,529

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2012

Capital Projects Fund			Total Nonmajor Governmental Funds
Vehicle and Repairs	Street Improvement	Sidewalk Assistance	
\$ -	\$ -	\$ -	\$ 32,384
-	-	-	256,878
-	-	-	1,192
-	200,000	-	201,044
-	-	-	7,190
-	200,000	-	498,688
-	-	-	84,222
-	-	-	187,349
-	-	-	262,337
32,313	-	-	32,313
-	-	-	26,020
32,313	-	-	592,241
(32,313)	200,000	-	(93,553)
26,571	102,000	-	421,260
(5,742)	302,000	-	327,707
79,303	229,657	49,072	462,282
\$ 73,561	\$ 531,657	\$ 49,072	\$ 789,989