

City of Richmond, Michigan

**Financial Report
with Supplemental Information
June 30, 2016**

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, 2016 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan as of June 30, 2016 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

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 schedule, 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 29, 2016

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, 2016. 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, 2016:

- The City's taxable value increased from \$155 million in 2015 to \$160 million in 2016. This was the first year in which taxable value increased, following seven consecutive years of decreases. For fiscal year 2016, property tax revenue, the City's largest single revenue source, totaled \$2.5 million in the General Fund, representing an increase of 2.9 percent from last fiscal year. This increase is primarily a reflection of the increase taxable value.
- State-shared revenue, a major source of revenue for the City's General Fund, decreased slightly for the year. The City received \$501,741 in the 2015/2016 fiscal year, a decrease of \$5,168, or 1.0 percent, from last year. The current year amount represents a reduction of \$182,975, or 26.7 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 \$186,299, an increase of \$12,216, or 7.0 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 \$566,102, primarily as a result of increased property tax revenue and revenue from the State other than state-shared revenue.
- This was the fourth year of a tax-based sharing agreement with the TIFA. The agreement generated approximately \$160,000 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 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. The 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, 2016 and 2015:

	Governmental		Business-type		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 3,705	\$ 3,221	\$ 5,251	\$ 5,052	\$ 8,956	\$ 8,273
Noncurrent assets - Capital assets	9,212	8,203	15,838	16,136	25,050	24,339
Total assets	12,917	11,424	21,089	21,188	34,006	32,612
Liabilities						
Current liabilities	195	273	103	41	298	314
Long-term liabilities	187	174	2,511	2,693	2,698	2,867
Total liabilities	382	447	2,614	2,734	2,996	3,181
Net Position						
Net investment in capital assets	9,211	8,203	13,357	13,465	22,568	21,668
Restricted	686	540	600	580	1,286	1,120
Unrestricted	2,638	2,234	4,518	4,409	7,156	6,643
Total net position	<u>\$ 12,535</u>	<u>\$ 10,977</u>	<u>\$ 18,475</u>	<u>\$ 18,454</u>	<u>\$ 31,010</u>	<u>\$ 29,431</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 \$31.0 million for fiscal year 2016. 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 \$23.8 million. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, totals approximately \$7.2 million.

The following table shows the change in net position for the years ended June 30, 2016 and 2015 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue						
Program revenue:						
Charges for services	\$ 785	\$ 812	\$ 1,739	\$ 1,780	\$ 2,524	\$ 2,592
Operating grants and contributions	541	429	-	-	541	429
Capital grants and contributions	1,219	180	-	-	1,219	180
General revenue:						
Property taxes	2,456	2,388	-	-	2,456	2,388
State-shared revenue	499	507	-	-	499	507
Interest	5	4	5	4	10	8
Franchise fees	94	94	-	-	94	94
Miscellaneous	61	28	-	-	61	28
Total revenue	5,660	4,442	1,744	1,784	7,404	6,226
Program Expenses						
General government	814	882	-	-	814	882
Public service	45	63	-	-	45	63
Public safety	1,862	1,823	-	-	1,862	1,823
Public works	871	894	-	-	871	894
Recreation and culture	510	530	-	-	510	530
Water and sewer	-	-	1,723	1,701	1,723	1,701
Total program expenses	4,102	4,192	1,723	1,701	5,825	5,893
Capital Contribution from TIFA	1,041	-	-	-	1,041	-
Change in Net Position	\$ 2,599	\$ 250	\$ 21	\$ 83	\$ 2,620	\$ 333

Governmental Activities

Governmental activities are those activities (such as public safety or recreation and culture) 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 \$4.1 million for fiscal year 2016. Additionally, revenue for governmental activities totaled approximately \$4.6 million and there was a \$1 million capital contribution from the TIFA, which netted to an increase in net position for the year of approximately \$1.6 million.

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; 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 2016. 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 \$566,000. During the year ended June 30, 2016, there were no significant budget amendments.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2016, 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.

Long-term Debt

The City's total long-term indebtedness as of June 30, 2016 is approximately \$2.7 million. Of this amount, \$2.5 million represents general obligation bonds. See Note 6 for additional details.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

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 5.3 percent a year ago to 4.9 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 the fund balance in recent years. During fiscal year 2017, the City anticipates a modest increase in the level of state-shared revenue. As property tax values appear to be leveling off following years of decline, the City is anticipating an \$8,000 increase in property tax revenue. The City will again utilize a sharing agreement with the TIFA that will result in an additional \$110,000 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, 2016

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,498,127	\$ 4,218,830	\$ 7,716,957	\$ 650,702
Receivables:				
Customers	-	432,427	432,427	-
Due from other governmental units	201,517	-	201,517	51,121
Special assessments	5,334	-	5,334	-
Due from primary government	-	-	-	72,943
Restricted assets (Notes 3 and 7)	-	599,979	599,979	-
Land held for resale	-	-	-	50,000
Capital assets (Note 4):				
Assets not subject to depreciation	288,980	355,282	644,262	314,864
Assets subject to depreciation	8,922,547	15,482,727	24,405,274	2,663,666
Total assets	12,916,505	21,089,245	34,005,750	3,803,296
Liabilities				
Accounts payable	96,772	103,476	200,248	147,740
Due to component unit	72,943	-	72,943	-
Accrued liabilities and other	25,688	-	25,688	-
Noncurrent liabilities (Note 6):				
Due within one year	66,863	206,489	273,352	-
Due in more than one year	119,436	2,303,855	2,423,291	-
Total liabilities	381,702	2,613,820	2,995,522	147,740
Net Position				
Net investment in capital assets	9,211,527	13,357,095	22,568,622	2,978,530
Restricted for:				
Roads	569,216	-	569,216	-
Capital projects	-	599,979	599,979	-
Library - Nonexpendable	10,000	-	10,000	-
Library - Expendable	53,117	-	53,117	-
Mausoleum	53,265	-	53,265	-
Unrestricted	2,637,678	4,518,351	7,156,029	677,026
Total net position	<u>\$ 12,534,803</u>	<u>\$ 18,475,425</u>	<u>\$ 31,010,228</u>	<u>\$ 3,655,556</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	\$ 813,869	\$ 2,861	\$ 4,199	\$ 1,041,338
Public service	45,098	38,477	-	-
Public safety	1,861,549	219,639	12,525	-
Public works	871,106	429,009	503,557	178,000
Recreation and culture	509,624	94,906	20,500	-
Total governmental activities	4,101,246	784,892	540,781	1,219,338
Business-type activities:				
Water	621,080	759,612	-	-
Sewer	1,101,962	980,157	-	-
Total business-type activities	1,723,042	1,739,769	-	-
Total primary government	<u>\$ 5,824,288</u>	<u>\$ 2,524,661</u>	<u>\$ 540,781</u>	<u>\$ 1,219,338</u>
Component unit - Tax Increment Finance Authority	<u>\$ 1,639,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,121</u>
General revenue:				
Property taxes				
State-shared revenue				
Interest				
Cable franchise fees				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

**Statement of Activities
Year Ended June 30, 2016**

Net Revenue (Expense) and Changes in Net Position			
Primary Government			Component Unit - Tax Increment Finance Authority
Governmental Activities	Business-type Activities	Total	
\$ 234,529	\$ -	\$ 234,529	\$ -
(6,621)	-	(6,621)	-
(1,629,385)	-	(1,629,385)	-
239,460	-	239,460	-
(394,218)	-	(394,218)	-
(1,556,235)	-	(1,556,235)	-
-	138,532	138,532	-
-	(121,805)	(121,805)	-
-	16,727	16,727	-
(1,556,235)	16,727	(1,539,508)	-
-	-	-	(1,588,624)
2,456,435	-	2,456,435	474,200
498,803	-	498,803	-
4,993	4,714	9,707	5,968
94,353	-	94,353	-
58,647	-	58,647	3,060
768	-	768	-
3,113,999	4,714	3,118,713	483,228
1,557,764	21,441	1,579,205	(1,105,396)
10,977,039	18,453,984	29,431,023	4,760,952
\$ 12,534,803	\$ 18,475,425	\$ 31,010,228	\$ 3,655,556

City of Richmond, Michigan

Governmental Funds Balance Sheet June 30, 2016

	General Fund	Other Nonmajor Governmental Funds	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 1,524,909	\$ 1,973,218	\$ 3,498,127
Receivables:			
Special assessments	5,334	-	5,334
Due from other governmental units	114,101	87,416	201,517
Total assets	\$ 1,644,344	\$ 2,060,634	\$ 3,704,978
Liabilities			
Accounts payable	\$ 41,015	\$ 55,757	\$ 96,772
Due to component unit	42,063	30,880	72,943
Accrued liabilities and other	25,688	-	25,688
Total liabilities	108,766	86,637	195,403
Deferred Inflows of Resources - Unavailable revenue	90,178	-	90,178
Fund Balances			
Nonspendable -			
Library endowment	-	10,000	10,000
Restricted:			
Roads	-	569,216	569,216
Library	-	53,117	53,117
Mausoleum	-	53,265	53,265
Committed:			
Fire operations	-	16,609	16,609
Parks and recreation	-	79,562	79,562
Cemetery	-	80,287	80,287
Fire equipment replacement	-	50,677	50,677
Assigned:			
Subsequent year's budget	47,097	-	47,097
Capital projects	-	1,061,264	1,061,264
Unassigned	1,398,303	-	1,398,303
Total fund balances	1,445,400	1,973,997	3,419,397
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,644,344	\$ 2,060,634	\$ 3,704,978

City of Richmond, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2016

Fund Balance Reported in Governmental Funds	\$ 3,419,397
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	9,211,527
Certain receivables were earned during the current fiscal year but are not available to pay for current year expenditures	90,178
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>(186,299)</u>
Net Position of Governmental Activities	<u>\$ 12,534,803</u>

City of Richmond, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Other Nonmajor Governmental Funds	Total
Revenue			
Property taxes	\$ 2,456,435	\$ -	\$ 2,456,435
Licenses and permits	174,423	-	174,423
Federal grants	-	6,986	6,986
State-shared revenue and grants	524,909	503,557	1,028,466
Charges for services	465,664	226,192	691,856
Fines and forfeitures	48,804	-	48,804
Interest	4,514	479	4,993
Other revenue:			
Special assessments	1,778	-	1,778
Donations	6,303	178,767	185,070
Other miscellaneous income	51,748	6,899	58,647
Total revenue	3,734,578	922,880	4,657,458
Expenditures - Current			
General government	454,127	-	454,127
Public service	-	44,531	44,531
Public safety	1,576,207	249,754	1,825,961
Public works	558,881	316,851	875,732
Recreation and culture	289,654	204,446	494,100
Capital outlay	-	293,048	293,048
Debt service - Principal	114,657	-	114,657
Total expenditures	2,993,526	1,108,630	4,102,156
Excess of Revenue Over (Under) Expenditures	741,052	(185,750)	555,302
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	10,800	-	10,800
Transfers in (Note 5)	-	649,745	649,745
Transfers out (Note 5)	(471,130)	(178,615)	(649,745)
Total other financing (uses) sources	(460,330)	471,130	10,800
Net Change in Fund Balances	280,722	285,380	566,102
Fund Balances - Beginning of year	1,164,678	1,688,617	2,853,295
Fund Balances - End of year	\$ 1,445,400	\$ 1,973,997	\$ 3,419,397

City of Richmond, Michigan

Proprietary Funds Statement of Net Position June 30, 2016

	Major Enterprise Funds		Total
	Water Fund	Sewer Fund	
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 963,021	\$ 3,255,809	\$ 4,218,830
Receivables - Customers	182,697	249,730	432,427
Total current assets	1,145,718	3,505,539	4,651,257
Noncurrent assets:			
Restricted assets (Note 7)	-	599,979	599,979
Capital assets (Note 4):			
Assets not subject to depreciation	327,223	28,059	355,282
Assets subject to depreciation	5,008,975	10,473,752	15,482,727
Total noncurrent assets	5,336,198	11,101,790	16,437,988
Total assets	6,481,916	14,607,329	21,089,245
Liabilities			
Current liabilities:			
Accounts payable	45,933	57,543	103,476
Current portion of compensated absences (Note 6)	6,756	4,733	11,489
Current portion of long-term debt (Note 6)	-	195,000	195,000
Total current liabilities	52,689	257,276	309,965
Noncurrent liabilities:			
Long-term portion of compensated absences (Note 6)	10,805	7,136	17,941
Long-term debt (Note 6)	-	2,285,914	2,285,914
Total noncurrent liabilities	10,805	2,293,050	2,303,855
Total liabilities	63,494	2,550,326	2,613,820
Net Position			
Net investment in capital assets	5,336,198	8,020,897	13,357,095
Restricted (Note 7)	-	599,979	599,979
Unrestricted	1,082,224	3,436,127	4,518,351
Total net position	\$ 6,418,422	\$12,057,003	\$18,475,425

City of Richmond, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	Major Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating Revenue			
Usage fees	\$ 722,940	\$ 923,598	\$ 1,646,538
Tap-in fees	280	315	595
Charges for services	2,500	-	2,500
Penalties	9,753	12,605	22,358
Miscellaneous	24,139	43,639	67,778
Total operating revenue	<u>759,612</u>	<u>980,157</u>	<u>1,739,769</u>
Operating Expenses			
Water production	101,818	-	101,818
Sewer treatment plant	-	436,742	436,742
Supplies	13,510	-	13,510
Administration	99,885	142,204	242,089
Water system	253,733	-	253,733
Sewer system	-	90,297	90,297
Depreciation	152,134	382,667	534,801
Total operating expenses	<u>621,080</u>	<u>1,051,910</u>	<u>1,672,990</u>
Operating Income (Loss)	138,532	(71,753)	66,779
Nonoperating Revenue (Expense)			
Investment income	1,447	3,267	4,714
Interest expense	-	(50,052)	(50,052)
Total nonoperating revenue (expense)	<u>1,447</u>	<u>(46,785)</u>	<u>(45,338)</u>
Change in Net Position	139,979	(118,538)	21,441
Net Position - Beginning of year	<u>6,278,443</u>	<u>12,175,541</u>	<u>18,453,984</u>
Net Position - End of year	<u>\$ 6,418,422</u>	<u>\$12,057,003</u>	<u>\$18,475,425</u>

City of Richmond, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2016

	Major Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 753,051	\$ 941,756	\$ 1,694,807
Payments to suppliers, employees, and other funds	(428,188)	(640,479)	(1,068,667)
Net cash provided by operating activities	324,863	301,277	626,140
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(198,240)	(38,210)	(236,450)
Principal and interest paid on capital debt	-	(240,052)	(240,052)
Net cash used in capital and related financing activities	(198,240)	(278,262)	(476,502)
Cash Flows from Investing Activities - Interest received on investments	1,447	3,267	4,714
Net Increase in Cash and Cash Equivalents	128,070	26,282	154,352
Cash and Cash Equivalents - Beginning of year	834,951	3,829,506	4,664,457
Cash and Cash Equivalents - End of year	\$ 963,021	\$ 3,855,788	\$ 4,818,809
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 963,021	\$ 3,255,809	\$ 4,218,830
Restricted cash	-	599,979	599,979
Total cash and cash equivalents	\$ 963,021	\$ 3,855,788	\$ 4,818,809
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 138,532	\$ (71,753)	\$ 66,779
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	152,134	382,667	534,801
Changes in assets and liabilities:			
Receivables	(6,561)	(38,401)	(44,962)
Inventories	4,552	2,149	6,701
Accounts payable	36,206	26,615	62,821
Net cash provided by operating activities	\$ 324,863	\$ 301,277	\$ 626,140

Note I - Summary of 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 Governmental 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 statements of net position and 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 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. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

Note I - Summary of 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 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 revenue 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 revenue 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.

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 for which specific revenue was used. The various funds are aggregated into the following 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 fund as a "major" governmental fund:

- 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

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.

Note I - Summary of 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 the 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.

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 healthcare-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.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is 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 - Summary of 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.

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 the 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.

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:

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

Note I - Summary of Significant Accounting Policies (Continued)

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 represents a consumption of net position that applies to a future period 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.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies 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 revenue 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.

Note I - Summary of Significant Accounting Policies (Continued)

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).

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.

Note I - Summary of Significant Accounting Policies (Continued)

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 2015 taxable valuation of the City totaled \$159.7 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 \$2,363,217 for operating purposes, 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.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water and Sewer Funds is 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2016

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, 2016 is as follows:

Accumulated Expenditures Over Revenue - July 1, 2015	\$ (404,977)
Current year revenue	78,026
Current year expenditures - Direct costs	<u>88,878</u>
Excess of expenditures over revenue	<u>(10,852)</u>
Accumulated Expenditures Over Revenue - June 30, 2016	<u>\$ (415,829)</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 five 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, 2016

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to custodial credit 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 \$7,673,962 of bank deposits (certificates of deposit and 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 \$548,958 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 and its component units was as follows:

	Balance July 1, 2015	Transfer from TIFA	Additions	Disposals	Balance June 30, 2016
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 120,000	\$ -	\$ -	\$ -	\$ 120,000
Construction in progress	-	-	168,980	-	168,980
Subtotal	120,000	-	168,980	-	288,980
Capital assets being depreciated:					
Infrastructure	4,125,301	-	-	(18,450)	4,106,851
Buildings and improvements	4,982,221	768,404	-	-	5,750,625
Vehicles and equipment	4,390,812	272,934	162,241	(125,918)	4,700,069
Subtotal	13,498,334	1,041,338	162,241	(144,368)	14,557,545
Accumulated depreciation:					
Infrastructure	959,120	-	123,881	(14,760)	1,068,241
Buildings and improvements	1,553,486	-	73,686	-	1,627,172
Vehicles and equipment	2,902,795	-	156,366	(119,576)	2,939,585
Subtotal	5,415,401	-	353,933	(134,336)	5,634,998
Net capital assets being depreciated	8,082,933	1,041,338	(191,692)	(10,032)	8,922,547
Net capital assets	\$ 8,202,933	\$ 1,041,338	\$ (22,712)	\$ (10,032)	\$ 9,211,527

City of Richmond, Michigan

Notes to Financial Statements June 30, 2016

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 157,042	\$ -	\$ -	\$ 157,042
Construction in progress	-	198,240	-	198,240
Subtotal	157,042	198,240	-	355,282
Capital assets being depreciated:				
Utility systems	16,348,725	38,210	(2,206)	16,384,729
Buildings	9,518,130	-	-	9,518,130
Vehicles and equipment	920,622	-	-	920,622
Subtotal	26,787,477	38,210	(2,206)	26,823,481
Accumulated depreciation:				
Utility systems	6,015,982	390,848	(2,206)	6,404,624
Buildings	4,011,052	128,753	-	4,139,805
Vehicles and equipment	781,125	15,200	-	796,325
Subtotal	10,808,159	534,801	(2,206)	11,340,754
Net capital assets being depreciated	15,979,318	(496,591)	-	15,482,727
Net capital assets	\$ 16,136,360	\$ (298,351)	\$ -	\$ 15,838,009

Component Unit	Balance July 1, 2015	Transfer to Governmental Activities	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 165,243	\$ -	\$ 62,438	\$ -	\$ 227,681
Construction in progress	681,754	(1,041,338)	454,221	(7,454)	87,183
Subtotal	846,997	(1,041,338)	516,659	(7,454)	314,864
Capital assets being depreciated:					
Infrastructure	2,219,631	-	-	-	2,219,631
Buildings and improvements	171,857	-	-	-	171,857
Furniture and fixtures	185,142	-	10,582	-	195,724
Land improvements	729,704	-	-	-	729,704
Subtotal	3,306,334	-	10,582	-	3,316,916
Accumulated depreciation:					
Infrastructure	306,435	-	35,678	-	342,113
Buildings and improvements	127,089	-	13,624	-	140,713
Furniture and fixtures	70,921	-	8,979	-	79,900
Land improvements	77,917	-	12,607	-	90,524
Subtotal	582,362	-	70,888	-	653,250
Net capital assets being depreciated	2,723,972	-	(60,306)	-	2,663,666
Net capital assets	\$ 3,570,969	\$ (1,041,338)	\$ 456,353	\$ (7,454)	\$ 2,978,530

City of Richmond, Michigan

Notes to Financial Statements June 30, 2016

Note 4 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 281,740
Public safety	52,706
Recreation and culture	<u>19,487</u>
Total governmental activities	<u>\$ 353,933</u>
Business-type activities:	
Water lines	\$ 152,134
Sewer lines	<u>382,667</u>
Total business-type activities	<u>\$ 534,801</u>

Construction Commitments - The City has three ongoing significant active construction projects, including engineering, as of June 30, 2016. The projects include the following:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Pound Road Construction	\$ 380,729	\$ 1,149,271
ADA Ramps	70,265	65,719
Tennis Courts	<u>30,876</u>	<u>157,624</u>
Total	<u>\$ 481,870</u>	<u>\$ 1,372,614</u>

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2016, \$30,880 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 two equal payments through 2018. Additionally, \$42,063 was due to the Tax Increment Finance Authority from the General Fund related to the purchase of two police vehicles. This was the first of two equal payments through 2017.

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	\$ 471,130
Nonmajor governmental funds	Nonmajor governmental funds	<u>178,615</u>
	Total	<u>\$ 649,745</u>

City of Richmond, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

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:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year		
Governmental Activities							
Compensated absences	\$ 174,083	\$ 68,637	\$ 56,421	\$ 186,299	\$ 66,863		
	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	\$ 760,000	\$ -	\$ 40,000	\$ 720,000	\$ 45,000
General obligation bonds - 2007							
Sewage Disposal System Revolving Loan:							
Amount of issue - \$3,010,914		\$145,000 -					
Maturing through 2027	1.625%	\$170,000	1,910,914	-	150,000	1,760,914	150,000
Total bonds payable			2,670,914	-	190,000	2,480,914	195,000
Compensated absences			22,729	8,831	2,130	29,430	11,489
Total business-type activities			\$ 2,693,643	\$ 8,831	\$ 192,130	\$ 2,510,344	\$ 206,489

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, 2016

Note 6 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$50,000. 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
2017	\$ 195,000	\$ 46,615	\$ 241,615
2018	195,000	43,052	238,052
2019	200,000	39,490	239,490
2020	200,000	35,846	235,846
2021	210,000	32,202	242,202
2022-2026	1,100,000	102,080	1,202,080
2027-2030	380,914	17,077	397,991
Total	<u>\$ 2,480,914</u>	<u>\$ 316,362</u>	<u>\$ 2,797,276</u>

Note 7 - Restricted Net Position

Restricted assets at June 30, 2016 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.

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 \$114,657 during the year ended June 30, 2016 when the taxable value of the area was approximately \$32 million.

During the year ending June 30, 2017, the City will pay approximately \$121,000, based on an estimated taxable value of approximately \$34 million. Future installment payments have been estimated assuming inflationary increases of 3 percent per year.

The estimated annual payment requirements to service the agreement as of June 30, 2016 are as follows:

2017	\$ 120,998
2018	124,627
2019	<u>128,366</u>
Total	<u>\$ 373,991</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 \$130,462 during the current year and employees contributed \$116,057.

Note 11 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

Required Supplemental Information

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,448,338	\$ 2,448,338	\$ 2,456,435	\$ 8,097
Licenses and permits	154,260	154,260	174,423	20,163
State-shared revenue and grants	542,921	542,921	524,909	(18,012)
Charges for services:				
Trash collection	298,000	298,000	300,481	2,481
Fees	13,500	13,500	36,655	23,155
Rentals	116,000	116,000	128,528	12,528
Fines and forfeitures:				
Traffic fines and penalties	18,600	18,600	18,814	214
Library fines	23,200	23,200	29,990	6,790
Interest	3,000	3,000	4,514	1,514
Other revenue:				
Special assessments	1,778	1,778	1,778	-
Donations	4,000	4,000	6,303	2,303
Other miscellaneous income	41,100	41,100	51,748	10,648
Total revenue	3,664,697	3,664,697	3,734,578	69,881
Expenditures - Current				
General government:				
City Council	23,218	29,787	28,155	1,632
City manager	63,347	63,347	64,758	(1,411)
Cable television	36,330	36,330	32,597	3,733
Treasurer	64,110	64,110	43,748	20,362
Assessor	32,888	32,888	33,614	(726)
Board of review	5,435	5,435	9,228	(3,793)
Clerk	101,444	101,444	101,908	(464)
Elections	8,407	8,407	8,382	25
Buildings and grounds	35,304	35,304	30,510	4,794
Attorney	21,800	24,300	27,839	(3,539)
Building and grounds - Police	113,250	100,750	73,388	27,362
Total general government	505,533	502,102	454,127	47,975
Public safety:				
Police	1,171,351	1,176,861	1,120,106	56,755
Communications	236,431	243,421	231,369	12,052
Civil defense/emergency preparedness	1,411	1,411	850	561
Traffic safety	27,459	27,459	23,330	4,129
Building and trade inspections	82,655	88,469	89,239	(770)
Planning	63,666	63,916	63,653	263
Public service director	49,331	49,331	47,660	1,671
Total public safety	1,632,304	1,650,868	1,576,207	74,661

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (continued)				
Public works:				
Department of Public Works	\$ 217,174	\$ 217,174	\$ 156,989	\$ 60,185
Refuse collection and disposal	280,550	280,550	262,744	17,806
Street lighting	118,000	118,398	139,148	(20,750)
Total public works	615,724	616,122	558,881	57,241
Recreation and culture - Library	315,843	311,445	289,654	21,791
Debt service - Principal	114,657	114,657	114,657	-
Total expenditures	3,184,061	3,195,194	2,993,526	201,668
Excess of Revenue Over Expenditures	480,636	469,503	741,052	271,549
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	1,500	1,500	10,800	9,300
Transfers out	(529,744)	(529,744)	(471,130)	58,614
Total other financing uses	(528,244)	(528,244)	(460,330)	67,914
Net Change in Fund Balance	(47,608)	(58,741)	280,722	339,463
Fund Balance - Beginning of year	1,164,678	1,164,678	1,164,678	-
Fund Balance - End of year	<u>\$ 1,117,070</u>	<u>\$ 1,105,937</u>	<u>\$ 1,445,400</u>	<u>\$ 339,463</u>

City of Richmond, Michigan

Note to Required Supplemental Information Year Ended June 30, 2016

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 center (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 expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance
General Fund:			
City manager	\$ 63,347	\$ 64,758	\$ (1,411)
Assessor	32,888	33,614	(726)
Board of review	5,435	9,228	(3,793)
Clerk	101,444	101,908	(464)
Attorney	24,300	27,839	(3,539)
Building and trade inspections	88,469	89,239	(770)
Street lighting	118,398	139,148	(20,750)

Other Supplemental Information

City of Richmond, Michigan

	Special Revenue Funds			
	Major Streets Fund	Local Streets Fund	Fire Department	Mausoleum
Assets - Cash and investments	\$ 369,707	\$ 153,939	\$ 76,117	\$ 53,265
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 215	\$ 41,631	\$ 8,831	\$ -
Due to component unit	-	-	-	-
Total liabilities	215	41,631	8,831	-
Fund Balances				
Nonspendable - Library Endowment	-	-	-	-
Restricted:				
Roads	416,511	152,705	-	-
Library	-	-	-	-
Mausoleum	-	-	-	53,265
Committed:				
Fire operations	-	-	16,609	-
Parks and recreation	-	-	-	-
Cemetery	-	-	-	-
Fire equipment replacement	-	-	50,677	-
Assigned - Capital projects	-	-	-	-
Total fund balances	416,511	152,705	67,286	53,265
Total liabilities and fund balances	\$ 416,726	\$ 194,336	\$ 76,117	\$ 53,265

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

Special Revenue Funds		Capital Projects Funds		Permanent Funds	Total Nonmajor Governmental Funds
Cemetery	Parks and Recreation	Vehicle and Repairs	Street Improvement	Library Endowment	
\$ 81,027	\$ 83,902	\$ 30,880	\$ 1,061,264	\$ 63,117	\$ 1,973,218
\$ 740	\$ 4,340	\$ -	\$ -	\$ -	\$ 55,757
-	-	30,880	-	-	30,880
740	4,340	30,880	-	-	86,637
-	-	-	-	10,000	10,000
-	-	-	-	-	569,216
-	-	-	-	53,117	53,117
-	-	-	-	-	53,265
-	-	-	-	-	16,609
-	79,562	-	-	-	79,562
80,287	-	-	-	-	80,287
-	-	-	-	-	50,677
-	-	-	1,061,264	-	1,061,264
80,287	79,562	-	1,061,264	63,117	1,973,997
\$ 81,027	\$ 83,902	\$ 30,880	\$ 1,061,264	\$ 63,117	\$ 2,060,634

City of Richmond, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Fire	
	Fund	Fund	Department	Mausoleum
Revenue				
Federal grants	\$ -	\$ -	\$ -	\$ -
State-shared revenue and grants	336,848	166,709	-	-
Charges for services	-	-	122,799	600
Interest	-	-	-	-
Other revenue:				
Donations	-	-	-	-
Other miscellaneous income	226	85	10	-
Total revenue	337,074	166,794	122,809	600
Expenditures - Current				
Public service	-	-	-	1,647
Public safety	-	-	249,754	-
Public works	192,620	124,231	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	168,980	-	-
Total expenditures	192,620	293,211	249,754	1,647
Excess of Revenue Over (Under) Expenditures	144,454	(126,417)	(126,945)	(1,047)
Other Financing Sources (Uses)				
Transfers in	-	178,615	139,270	-
Transfers out	(50,000)	-	-	-
Total other financing (uses) sources	(50,000)	178,615	139,270	-
Net Change in Fund Balances	94,454	52,198	12,325	(1,047)
Fund Balances - Beginning of year	322,057	100,507	54,961	54,312
Fund Balances - End of year	\$ 416,511	\$ 152,705	\$ 67,286	\$ 53,265

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2016

Special Revenue Funds		Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
Cemetery	Parks and Recreation	Vehicle and Repairs	Street Improvement	Library Endowment	
\$ -	\$ 6,986	\$ -	\$ -	\$ -	\$ 6,986
-	-	-	-	-	503,557
37,877	64,916	-	-	-	226,192
479	-	-	-	-	479
-	767	-	178,000	-	178,767
-	6,578	-	-	-	6,899
38,356	79,247	-	178,000	-	922,880
42,884	-	-	-	-	44,531
-	-	-	-	-	249,754
-	-	-	-	-	316,851
-	204,446	-	-	-	204,446
-	2,450	121,618	-	-	293,048
42,884	206,896	121,618	-	-	1,108,630
(4,528)	(127,649)	(121,618)	178,000	-	(185,750)
33,000	130,000	66,860	102,000	-	649,745
-	-	-	(128,615)	-	(178,615)
33,000	130,000	66,860	(26,615)	-	471,130
28,472	2,351	(54,758)	151,385	-	285,380
51,815	77,211	54,758	909,879	63,117	1,688,617
\$ 80,287	\$ 79,562	\$ -	\$ 1,061,264	\$ 63,117	\$ 1,973,997