

City of Richmond, Michigan

**Financial Report
with Supplemental Information
June 30, 2017**

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 (the "City") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City 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, 2017 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 schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Plante & Morse, PLLC

August 21, 2017

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, 2017. 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, 2017:

- The City's taxable value increased from \$160 million in 2016 to \$164 million in 2017. This was the second year in which taxable value increased, following seven consecutive years of decreases. For fiscal year 2017, property tax revenue, the City's largest single revenue source, totaled \$2.4 million in the General Fund, representing a decrease of 1.2 percent from last fiscal year. This decrease is primarily a reflection of the reduction in the tax-based sharing agreement with the TIFA.
- State-shared revenue, a major source of revenue for the City's General Fund, increased slightly for the year. The City received \$526,749 in the 2016/2017 fiscal year, an increase of \$25,008, or 5.0 percent, from last year. The current year amount represents a reduction of \$157,967, or 23.1 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 \$186,740, an increase of \$441, or 0.2 percent, from the previous year. This increase relates to an increase in accrued compensated absences.
- Total fund balance for the City's governmental funds decreased by \$263,468, primarily as a result of capital project expenditures for street improvements.
- This was the fifth year of a tax-based sharing agreement with the TIFA. The agreement generated approximately \$109,000 of revenue for the General Fund over the past year.

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.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

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, 2017 and 2016:

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 3,303	\$ 3,705	\$ 5,135	\$ 5,251	\$ 8,438	\$ 8,956
Noncurrent assets - Capital assets	<u>10,449</u>	<u>9,212</u>	<u>15,755</u>	<u>15,838</u>	<u>26,204</u>	<u>25,050</u>
Total assets	13,752	12,917	20,890	21,089	34,642	34,006
Liabilities						
Current liabilities	55	195	4	103	59	298
Long-term liabilities	<u>187</u>	<u>187</u>	<u>2,318</u>	<u>2,511</u>	<u>2,505</u>	<u>2,698</u>
Total liabilities	<u>242</u>	<u>382</u>	<u>2,322</u>	<u>2,614</u>	<u>2,564</u>	<u>2,996</u>
Net Position						
Net investment in capital assets	10,449	9,211	13,469	13,357	23,918	22,568
Restricted	678	686	620	600	1,298	1,286
Unrestricted	<u>2,383</u>	<u>2,638</u>	<u>4,479</u>	<u>4,518</u>	<u>6,862</u>	<u>7,156</u>
Total net position	<u>\$ 13,510</u>	<u>\$ 12,535</u>	<u>\$ 18,568</u>	<u>\$ 18,475</u>	<u>\$ 32,078</u>	<u>\$ 31,010</u>

The City's combined net position for both governmental and business-type activities totals \$32.1 million for fiscal year 2017. 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 \$25.2 million. Unrestricted net position, the part of net position that can be used to finance day-to-day operations, totals approximately \$6.9 million.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the change in net position for the years ended June 30, 2017 and 2016 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue						
Program revenue:						
Charges for services	\$ 814	\$ 785	\$ 1,836	\$ 1,739	\$ 2,650	\$ 2,524
Operating grants and contributions	482	541	-	-	482	541
Capital grants and contributions	184	1,219	83	-	267	1,219
General revenue:						
Property taxes	2,427	2,456	-	-	2,427	2,456
State-shared revenue	549	499	-	-	549	499
Interest	9	5	6	5	15	10
Franchise fees	96	94	-	-	96	94
Miscellaneous	68	61	-	-	68	61
Total revenue	4,629	5,660	1,925	1,744	6,554	7,404
Program Expenses						
General government	397	814	-	-	397	814
Public service	46	45	-	-	46	45
Public safety	1,736	1,862	-	-	1,736	1,862
Public works	941	871	-	-	941	871
Recreation and culture	534	510	-	-	534	510
Water and sewer	-	-	1,832	1,723	1,832	1,723
Total program expenses	3,654	4,102	1,832	1,723	5,486	5,825
Capital Contribution from TIFA	-	1,041	-	-	-	1,041
Change in Net Position	\$ 975	\$ 2,599	\$ 93	\$ 21	\$ 1,068	\$ 2,620

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.

The cost of providing services for governmental activities was approximately \$3.7 million for fiscal year 2017. Additionally, revenue for governmental activities totaled approximately \$4.6 million for fiscal year 2017.

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.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

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, Major Streets Fund, Local Streets 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 2017. 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 decreased by approximately \$263,500. During the year ended June 30, 2017, there were no significant budget amendments.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2017, the City had \$26 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, 2017 is approximately \$2.5 million. Of this amount, \$2.3 million represents general obligation bonds. See Note 6 for additional details.

Economic Factors and Next Year's Budgets and Rates

At this time, the national economy continues to show signs of improvement. The national unemployment rate has decreased from 4.9 percent a year ago to 4.4 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 slowly increasing following years of decline, the City is anticipating a \$73,000 increase in property tax revenue. The City will again utilize a sharing agreement with the TIFA that will result in an additional \$100,000 for the General Fund. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenue, and expenditures.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

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, 2017

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,011,449	\$ 4,086,742	\$ 7,098,191	\$ 129,050
Receivables:				
Receivables from sales to customers on account	-	428,261	428,261	-
Due from other governmental units	287,247	-	287,247	-
Special assessments receivable	3,556	-	3,556	-
Due from primary government	-	-	-	15,440
Restricted assets (Notes 3 and 7)	-	620,279	620,279	-
Land held for resale	-	-	-	50,000
Capital assets (Note 4):				
Assets not subject to depreciation	120,000	157,042	277,042	412,360
Assets subject to depreciation	10,329,300	15,598,162	25,927,462	2,647,058
Total assets	13,751,552	20,890,486	34,642,038	3,253,908
Liabilities				
Accounts payable	10,076	4,407	14,483	13,200
Due to component unit	15,440	-	15,440	-
Accrued liabilities and other	29,034	-	29,034	-
Noncurrent liabilities (Note 6):				
Due within one year	71,715	207,719	279,434	-
Due in more than one year	115,025	2,110,355	2,225,380	-
Total liabilities	241,290	2,322,481	2,563,771	13,200
Net Position				
Net investment in capital assets	10,449,300	13,469,290	23,918,590	3,059,418
Restricted for:				
Roads	559,513	-	559,513	-
Capital projects	-	620,279	620,279	-
Library - Nonexpendable	10,000	-	10,000	-
Library - Expendable	55,228	-	55,228	-
Mausoleum	53,010	-	53,010	-
Unrestricted	2,383,211	4,478,436	6,861,647	181,290
Total net position	<u>\$ 13,510,262</u>	<u>\$ 18,568,005</u>	<u>\$ 32,078,267</u>	<u>\$ 3,240,708</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	\$ 396,900	\$ 14,369	\$ 7,197	\$ -
Public service	46,246	31,433	-	-
Public safety	1,736,177	235,434	18,743	-
Public works	940,843	442,981	443,263	178,000
Recreation and culture	534,176	90,221	13,113	5,609
Total governmental activities	3,654,342	814,438	482,316	183,609
Business-type activities:				
Water	715,147	818,444	-	82,705
Sewer	1,117,591	1,017,950	-	-
Total business-type activities	1,832,738	1,836,394	-	82,705
Total primary government	<u>\$ 5,487,080</u>	<u>\$ 2,650,832</u>	<u>\$ 482,316</u>	<u>\$ 266,314</u>
Component unit - Tax Increment Finance Authority	<u>\$ 994,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,893</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
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, 2017

Net Revenue (Expense) and Changes in Net Position			
Primary Government			Component Unit - Tax Increment Finance Authority
Governmental Activities	Business-type Activities	Total	
\$ (375,334)	\$ -	\$ (375,334)	\$ -
(14,813)	-	(14,813)	-
(1,482,000)	-	(1,482,000)	-
123,401	-	123,401	-
(425,233)	-	(425,233)	-
(2,173,979)	-	(2,173,979)	-
-	186,002	186,002	-
-	(99,641)	(99,641)	-
-	86,361	86,361	-
(2,173,979)	86,361	(2,087,618)	-
-	-	-	(962,723)
2,426,545	-	2,426,545	510,791
549,431	-	549,431	-
8,613	6,219	14,832	5,292
95,556	-	95,556	-
66,692	-	66,692	31,792
2,601	-	2,601	-
3,149,438	6,219	3,155,657	547,875
975,459	92,580	1,068,039	(414,848)
12,534,803	18,475,425	31,010,228	3,655,556
\$ 13,510,262	\$ 18,568,005	\$ 32,078,267	\$ 3,240,708

City of Richmond, Michigan

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,739,802	\$ 364,068	\$ 127,930	\$ 779,649	\$ 3,011,449
Receivables:					
Special assessments	3,556	-	-	-	3,556
Due from other governmental units	198,369	56,111	21,125	11,642	287,247
Total assets	\$ 1,941,727	\$ 420,179	\$ 149,055	\$ 791,291	\$ 3,302,252
Liabilities					
Accounts payable	\$ 74	\$ 4,517	\$ 5,204	\$ 281	\$ 10,076
Due to component unit	-	-	-	15,440	15,440
Accrued liabilities and other	29,034	-	-	-	29,034
Total liabilities	29,108	4,517	5,204	15,721	54,550
Deferred Inflows of Resources -					
Unavailable revenue	91,773	-	-	-	91,773
Fund Balances					
Nonspendable -					
Library endowment	-	-	-	10,000	10,000
Restricted:					
Roads	-	415,662	143,851	-	559,513
Library	-	-	-	55,228	55,228
Mausoleum	-	-	-	53,010	53,010
Committed:					
Fire operations	-	-	-	26,064	26,064
Parks and recreation	-	-	-	82,359	82,359
Cemetery	-	-	-	99,222	99,222
Fire equipment replacement	-	-	-	53,885	53,885
Assigned:					
Subsequent year's budget	60,802	-	-	-	60,802
Capital projects	-	-	-	395,802	395,802
Unassigned	1,760,044	-	-	-	1,760,044
Total fund balances	1,820,846	415,662	143,851	775,570	3,155,929
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,941,727	\$ 420,179	\$ 149,055	\$ 791,291	\$ 3,302,252

City of Richmond, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2017

Fund Balance Reported in Governmental Funds	\$ 3,155,929
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	10,449,300
Certain receivables were earned during the current fiscal year but are not available to pay for current year expenditures	91,773
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>(186,740)</u>
Net Position of Governmental Activities	<u>\$ 13,510,262</u>

City of Richmond, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Governmental Funds	Total
Revenue					
Property taxes	\$ 2,426,545	\$ -	\$ -	\$ -	\$ 2,426,545
Licenses and permits	210,665	-	-	-	210,665
Federal grants	-	-	-	4,442	4,442
State-shared revenue and grants	579,169	322,735	120,528	1,500	1,023,932
Charges for services	453,979	-	-	223,218	677,197
Fines and forfeitures	36,064	-	-	-	36,064
Interest	5,425	184	32	2,972	8,613
Other revenue:					
Special assessments	1,778	-	-	-	1,778
Donations	5,309	-	-	178,300	183,609
Other miscellaneous income	53,417	303	7,802	5,170	66,692
Total revenue	<u>3,772,351</u>	<u>323,222</u>	<u>128,362</u>	<u>415,602</u>	<u>4,639,537</u>
Expenditures - Current					
General government	421,748	-	-	-	421,748
Public service	-	-	-	46,246	46,246
Public safety	1,522,651	-	-	257,458	1,780,109
Public works	555,153	190,515	175,358	-	921,026
Recreation and culture	301,070	-	-	216,891	517,961
Capital outlay	12,867	83,556	971,858	29,237	1,097,518
Debt service - Principal	120,998	-	-	-	120,998
Total expenditures	<u>2,934,487</u>	<u>274,071</u>	<u>1,147,216</u>	<u>549,832</u>	<u>4,905,606</u>
Excess of Revenue Over (Under) Expenditures	837,864	49,151	(1,018,854)	(134,230)	(266,069)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	2,601	2,601
Transfers in (Note 5)	-	-	1,010,000	462,418	1,472,418
Transfers out (Note 5)	(462,418)	(50,000)	-	(960,000)	(1,472,418)
Total other financing (uses) sources	<u>(462,418)</u>	<u>(50,000)</u>	<u>1,010,000</u>	<u>(494,981)</u>	<u>2,601</u>
Net Change in Fund Balances	375,446	(849)	(8,854)	(629,211)	(263,468)
Fund Balances - Beginning of year	<u>1,445,400</u>	<u>416,511</u>	<u>152,705</u>	<u>1,404,781</u>	<u>3,419,397</u>
Fund Balances - End of year	<u>\$ 1,820,846</u>	<u>\$ 415,662</u>	<u>\$ 143,851</u>	<u>\$ 775,570</u>	<u>\$ 3,155,929</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ (263,468)
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	1,265,788
Depreciation expense	(388,136)
Transfer of capital assets from the TIFA is only recorded in the government-wide statements	360,121
Special assessment revenue is not reported in the funds until received; this revenue is recorded as revenue when the project is substantially completed in the government-wide statements	(1,778)
Intergovernmental revenue is recognized in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	3,373
Increase in accumulated employee sick and vacation pay does not require the use of current resources and therefore is not reported in the fund statements until it comes due for payment	<u>(441)</u>
Change in Net Position of Governmental Activities	<u>\$ 975,459</u>

City of Richmond, Michigan

Proprietary Funds Statement of Net Position June 30, 2017

	Major Enterprise Funds		Total
	Water Fund	Sewer Fund	
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 809,599	\$ 3,277,143	\$ 4,086,742
Receivables - Customers	202,621	225,640	428,261
Total current assets	1,012,220	3,502,783	4,515,003
Noncurrent assets:			
Restricted assets (Note 7)	-	620,279	620,279
Capital assets (Note 4):			
Assets not subject to depreciation	128,983	28,059	157,042
Assets subject to depreciation	5,505,737	10,092,425	15,598,162
Total noncurrent assets	5,634,720	10,740,763	16,375,483
Total assets	6,646,940	14,243,546	20,890,486
Liabilities			
Current liabilities:			
Accounts payable	506	3,901	4,407
Compensated absences (Note 6)	7,493	5,226	12,719
Current portion of long-term debt (Note 6)	-	195,000	195,000
Total current liabilities	7,999	204,127	212,126
Noncurrent liabilities:			
Compensated absences (Note 6)	11,723	7,718	19,441
Long-term debt (Note 6)	-	2,090,914	2,090,914
Total noncurrent liabilities	11,723	2,098,632	2,110,355
Total liabilities	19,722	2,302,759	2,322,481
Net Position			
Net investment in capital assets	5,634,720	7,834,570	13,469,290
Restricted (Note 7)	-	620,279	620,279
Unrestricted	992,498	3,485,938	4,478,436
Total net position	\$ 6,627,218	\$ 11,940,787	\$ 18,568,005

City of Richmond, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Major Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating Revenue			
Usage fees	\$ 765,599	\$ 942,672	\$ 1,708,271
Tap-in fees	490	595	1,085
Charges for services	8,593	-	8,593
Penalties	11,173	14,487	25,660
Miscellaneous	32,589	60,196	92,785
Total operating revenue	818,444	1,017,950	1,836,394
Operating Expenses			
Water production	136,350	-	136,350
Sewer treatment plant	-	386,887	386,887
Administration	118,854	136,109	254,963
Water system	303,024	-	303,024
Sewer system	-	166,653	166,653
Depreciation	156,919	381,327	538,246
Total operating expenses	715,147	1,070,976	1,786,123
Operating Income (Loss)	103,297	(53,026)	50,271
Nonoperating Revenue (Expense)			
Investment income	340	5,879	6,219
Interest expense	-	(46,615)	(46,615)
Total nonoperating revenue (expense)	340	(40,736)	(40,396)
Income (Loss) - Before transfers	103,637	(93,762)	9,875
Capital Contributions	82,705	-	82,705
Transfers In (Note 5)	22,454	-	22,454
Transfers Out (Note 5)	-	(22,454)	(22,454)
Change in Net Position	208,796	(116,216)	92,580
Net Position - Beginning of year	6,418,422	12,057,003	18,475,425
Net Position - End of year	\$ 6,627,218	\$ 11,940,787	\$ 18,568,005

City of Richmond, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2017

	Major Enterprise Funds		Total
	Water Fund	Sewer Fund	
Cash Flows from Operating Activities			
Receipts from customers	\$ 798,520	\$ 1,042,040	\$ 1,840,560
Payments to suppliers, employees, and other funds	(602,000)	(742,216)	(1,344,216)
Net cash provided by operating activities	196,520	299,824	496,344
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	22,454	-	22,454
Transfers to other funds	-	(22,454)	(22,454)
Net cash provided by (used in) noncapital financing activities	22,454	(22,454)	-
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(372,736)	-	(372,736)
Principal and interest paid on capital debt	-	(241,615)	(241,615)
Net cash used in capital and related financing activities	(372,736)	(241,615)	(614,351)
Cash Flows from Investing Activities - Interest received on investments	340	5,879	6,219
Net (Decrease) Increase in Cash and Cash Equivalents	(153,422)	41,634	(111,788)
Cash and Cash Equivalents - Beginning of year	963,021	3,855,788	4,818,809
Cash and Cash Equivalents - End of year	<u>\$ 809,599</u>	<u>\$ 3,897,422</u>	<u>\$ 4,707,021</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 809,599	\$ 3,277,143	\$ 4,086,742
Restricted cash	-	620,279	620,279
Total cash and cash equivalents	<u>\$ 809,599</u>	<u>\$ 3,897,422</u>	<u>\$ 4,707,021</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 103,297	\$ (53,026)	\$ 50,271
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	156,919	381,327	538,246
Changes in assets and liabilities:			
Receivables	(19,924)	24,090	4,166
Accounts payable	(43,772)	(52,567)	(96,339)
Net cash provided by operating activities	<u>\$ 196,520</u>	<u>\$ 299,824</u>	<u>\$ 496,344</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2017, the Water Fund received \$82,705 of donated capital assets.

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 two broad fund types:

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Major Streets Fund, which is a special revenue fund because it accounts for all financial resources received from the State of Michigan under Act 51 in order to provide maintenance of major streets.
- The Local Streets Fund, which is a special revenue fund because it accounts for all financial resources received from the State of Michigan under Act 51 in order to provide maintenance of local streets.

Note I - Summary of Significant Accounting Policies (Continued)

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.

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.

Furthermore, 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.

Note I - Summary of Significant Accounting Policies (Continued)

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."

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 acquisition cost at the date of donation.

Note I - Summary of Significant Accounting Policies (Continued)

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

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 are 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.

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Note I - Summary of Significant Accounting Policies (Continued)

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 City Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

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

The 2016 taxable valuation of the City totaled \$163.5 million (a portion of which is captured by the TIFA), on which taxes levied consisted of 16.5593 mills for operating purposes. This resulted in \$2,343,544 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.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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, 2017 is as follows:

Accumulated Expenditures Over Revenue - July 1, 2016	\$ (415,829)
Current year revenue	97,806
Current year expenditures - Direct costs	<u>105,388</u>
Excess of expenditures over revenue	<u>(7,582)</u>
Accumulated Expenditures Over Revenue - June 30, 2017	<u>\$ (423,411)</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, 2017

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 \$6,950,389 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 \$181,652 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:

Governmental Activities	Balance	Reclassifications and Transfers			Balance
	July 1, 2016	from TIFA	Additions	Disposals	June 30, 2017
Capital assets not being depreciated:					
Land	\$ 120,000	\$ -	\$ -	\$ -	\$ 120,000
Construction in progress	168,980	(168,980)	-	-	-
Subtotal	288,980	(168,980)	-	-	120,000
Capital assets being depreciated:					
Infrastructure	4,106,851	497,171	1,095,533	-	5,699,555
Buildings and improvements	5,750,625	-	56,497	-	5,807,122
Vehicles and equipment	4,700,069	31,930	113,758	(115,000)	4,730,757
Subtotal	14,557,545	529,101	1,265,788	(115,000)	16,237,434
Accumulated depreciation:					
Infrastructure	1,068,241	-	151,858	-	1,220,099
Buildings and improvements	1,627,172	-	81,370	-	1,708,542
Vehicles and equipment	2,939,585	-	154,908	(115,000)	2,979,493
Subtotal	5,634,998	-	388,136	(115,000)	5,908,134
Net capital assets being depreciated	8,922,547	529,101	877,652	-	10,329,300
Net capital assets	\$ 9,211,527	\$ 360,121	\$ 877,652	\$ -	\$ 10,449,300

City of Richmond, Michigan

Notes to Financial Statements June 30, 2017

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2016	Transfers	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 157,042	\$ -	\$ -	\$ -	\$ 157,042
Construction in progress	198,240	(570,976)	372,736	-	-
Subtotal	355,282	(570,976)	372,736	-	157,042
Capital assets being depreciated:					
Utility systems	16,384,729	570,976	82,705	(23,170)	17,015,240
Buildings	9,518,130	-	-	-	9,518,130
Vehicles and equipment	920,622	-	-	-	920,622
Subtotal	26,823,481	570,976	82,705	(23,170)	27,453,992
Accumulated depreciation:					
Utility systems	6,404,624	-	336,774	(23,170)	6,718,228
Buildings	4,139,805	-	173,458	-	4,313,263
Vehicles and equipment	796,325	-	28,014	-	824,339
Subtotal	11,340,754	-	538,246	(23,170)	11,855,830
Net capital assets being depreciated	15,482,727	570,976	(455,541)	-	15,598,162
Net capital assets	\$ 15,838,009	\$ -	\$ (82,805)	\$ -	\$ 15,755,204
Component Unit	Balance July 1, 2016	Transfer to Governmental Activities	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 227,681	\$ -	\$ 32,290	\$ -	\$ 259,971
Construction in progress	87,183	(360,121)	425,327	-	152,389
Subtotal	314,864	(360,121)	457,617	-	412,360
Capital assets being depreciated:					
Infrastructure	2,219,631	-	52,938	-	2,272,569
Buildings and improvements	171,857	-	-	-	171,857
Furniture and fixtures	195,724	-	14,159	-	209,883
Land improvements	729,704	-	-	-	729,704
Subtotal	3,316,916	-	67,097	-	3,384,013
Accumulated depreciation:					
Infrastructure	342,113	-	36,625	-	378,738
Buildings and improvements	140,713	-	13,675	-	154,388
Furniture and fixtures	79,900	-	16,946	-	96,846
Land improvements	90,524	-	16,459	-	106,983
Subtotal	653,250	-	83,705	-	736,955
Net capital assets being depreciated	2,663,666	-	(16,608)	-	2,647,058
Net capital assets	\$ 2,978,530	\$ (360,121)	\$ 441,009	\$ -	\$ 3,059,418

City of Richmond, Michigan

Notes to Financial Statements June 30, 2017

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 318,336
Public safety	54,026
Recreation and culture	15,774
Total governmental activities	<u>\$ 388,136</u>

Business-type activities:

Water lines	\$ 156,919
Sewer lines	381,327
Total business-type activities	<u>\$ 538,246</u>

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2017, \$15,440 was due to the Tax Increment Finance Authority from the Vehicle and Repairs Fund related to the purchase of a street sweeper. The remaining amount will be paid in 2018.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 462,418
Major Streets Fund	Local Streets Fund	50,000
Nonmajor governmental funds	Local Streets Fund	960,000
Sewer Fund	Water Fund	22,454
	Total	<u>\$ 1,494,872</u>

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

Note 6 - Long-term Debt

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

City of Richmond, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year		
Governmental Activities							
Compensated absences	\$ 186,299	\$ 66,863	\$ 66,422	\$ 186,740	\$ 71,715		
	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	\$ 720,000	\$ -	\$ 45,000	\$ 675,000	\$ 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	1,760,914	-	150,000	1,610,914	150,000
Total bonds payable			2,480,914	-	195,000	2,285,914	195,000
Compensated absences			29,430	11,489	8,759	32,160	12,719
Total business-type activities			\$ 2,510,344	\$ 11,489	\$ 203,759	\$ 2,318,074	\$ 207,719

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

Total interest expense for the year was approximately \$46,600. 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
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	215,000	28,352	243,352
2023-2027	1,090,914	81,930	1,172,844
2028-2030	175,000	8,875	183,875
Total	\$ 2,285,914	\$ 269,747	\$ 2,555,661

City of Richmond, Michigan

Notes to Financial Statements June 30, 2017

Note 7 - Restricted Net Position

Restricted assets at June 30, 2017 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 \$120,998 during the year ended June 30, 2017 when the taxable value of the area was approximately \$34 million.

During the year ending June 30, 2018, the City will pay approximately \$129,000, based on an estimated taxable value of approximately \$36 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, 2017 are as follows:

2018	\$ 129,201
2019	<u>133,077</u>
Total	<u>\$ 262,278</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 three defined contribution plans: (1) 401 Money Purchase Plan and 457 Deferred Compensation Plan administered by ICMA-RC Retirement Trust, (2) Pension Trust administered by Lincoln Financial Group, and (3) 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 \$131,225 during the current year and employees contributed \$118,404.

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.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. 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, 2020.

Required Supplemental Information

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,461,568	\$ 2,461,568	\$ 2,426,545	\$ (35,023)
Licenses and permits	169,906	169,906	210,665	40,759
State-shared revenue and grants	543,851	543,851	579,169	35,318
Charges for services:				
Trash collection	298,000	298,000	300,938	2,938
Fees	19,716	19,716	10,998	(8,718)
Rentals	116,000	116,000	142,043	26,043
Fines and forfeitures:				
Traffic fines and penalties	19,000	19,000	14,159	(4,841)
Library fines	23,200	23,200	21,905	(1,295)
Interest	3,000	3,000	5,425	2,425
Other revenue:				
Special assessments	1,778	1,778	1,778	-
Donations	4,000	4,000	5,309	1,309
Other miscellaneous income	42,100	42,100	53,417	11,317
Total revenue	3,702,119	3,702,119	3,772,351	70,232
Expenditures - Current				
General government:				
City Council	23,806	23,806	20,957	2,849
City manager	64,635	67,375	67,210	165
Cable television	47,968	63,285	59,736	3,549
Treasurer	59,949	59,719	39,352	20,367
Assessor	34,399	34,337	33,189	1,148
Board of Review	12,435	12,435	1,372	11,063
Clerk	102,901	102,901	98,215	4,686
Elections	17,313	17,313	8,018	9,295
Buildings and grounds	29,513	37,037	31,494	5,543
Attorney	22,000	22,000	18,043	3,957
Building and grounds - Police	46,677	47,210	44,162	3,048
Total general government	461,596	487,418	421,748	65,670
Public safety:				
Police	1,182,836	1,173,686	1,058,814	114,872
Communications	234,008	243,158	220,130	23,028
Civil defense/Emergency preparedness	1,411	1,411	425	986
Traffic safety	27,800	27,800	24,660	3,140
Building and trade inspections	85,219	104,306	105,982	(1,676)
Planning	64,878	64,878	63,774	1,104
Public service director	49,760	48,725	48,866	(141)
Total public safety	1,645,912	1,663,964	1,522,651	141,313

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (continued)				
Public works:				
Department of Public Works	\$ 210,612	\$ 211,647	\$ 157,132	\$ 54,515
Refuse collection and disposal	267,936	267,936	268,134	(198)
Street lighting	118,554	118,554	129,887	(11,333)
Total public works	597,102	598,137	555,153	42,984
Recreation and culture - Library	336,653	333,103	301,070	32,033
Capital outlay	27,000	26,000	12,867	13,133
Debt service - Principal	120,998	120,998	120,998	-
Total expenditures	3,189,261	3,229,620	2,934,487	295,133
Excess of Revenue Over Expenditures	512,858	472,499	837,864	365,365
Other Financing Uses - Transfers out	(559,955)	(559,955)	(462,418)	(97,537)
Net Change in Fund Balance	(47,097)	(87,456)	375,446	462,902
Fund Balance - Beginning of year	1,445,400	1,445,400	1,445,400	-
Fund Balance - End of year	<u>\$ 1,398,303</u>	<u>\$ 1,357,944</u>	<u>\$ 1,820,846</u>	<u>\$ 462,902</u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 286,235	\$ 286,235	\$ 322,735	\$ 36,500
Interest	-	-	184	184
Other revenue	100	100	303	203
Total revenue	286,335	286,335	323,222	36,887
Expenditures				
Current:				
Public works:				
Street construction	-	33,992	33,991	1
Routine maintenance	94,115	76,305	76,124	181
Winter maintenance	86,631	60,483	49,580	10,903
Traffic services	27,900	27,900	22,580	5,320
Administration	8,821	8,821	8,240	581
Total public works	217,467	207,501	190,515	16,986
Capital outlay	-	77,800	83,556	(5,756)
Total expenditures	217,467	285,301	274,071	11,230
Excess of Revenue Over Expenditures	68,868	1,034	49,151	48,117
Other Financing Uses - Transfers out	(50,000)	(50,000)	(50,000)	-
Net Change in Fund Balance	18,868	(48,966)	(849)	48,117
Fund Balance - Beginning of year	416,511	416,511	416,511	-
Fund Balance - End of year	<u>\$ 435,379</u>	<u>\$ 367,545</u>	<u>\$ 415,662</u>	<u>\$ 48,117</u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 123,917	\$ 123,917	\$ 120,528	\$ (3,389)
Interest	-	-	32	32
Other revenue	100	100	7,802	7,702
Total revenue	124,017	124,017	128,362	4,345
Expenditures				
Current:				
Public works:				
Street construction	119,200	60,000	57,154	2,846
Routine maintenance	84,801	77,349	82,373	(5,024)
Winter maintenance	48,193	24,075	22,266	1,809
Traffic services	10,491	11,440	8,249	3,191
Administration	5,859	5,859	5,316	543
Total public works	268,544	178,723	175,358	3,365
Capital outlay	800,000	967,000	971,858	(4,858)
Total expenditures	1,068,544	1,145,723	1,147,216	(1,493)
Excess of Expenditures Over Revenue	(944,527)	(1,021,706)	(1,018,854)	2,852
Other Financing Sources - Transfers in	969,200	969,200	1,010,000	40,800
Net Change in Fund Balance	24,673	(52,506)	(8,854)	43,652
Fund Balance - Beginning of year	152,705	152,705	152,705	-
Fund Balance - End of year	<u>\$ 177,378</u>	<u>\$ 100,199</u>	<u>\$ 143,851</u>	<u>\$ 43,652</u>

City of Richmond, Michigan

Note to Required Supplemental Information Year Ended June 30, 2017

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 - Building and trade inspections	\$ 104,306	\$ 105,982	\$ (1,676)
General Fund - Public service director	48,725	48,866	(141)
General Fund - Refuse collection and disposal	267,936	268,134	(198)
General Fund - Street lighting	118,554	129,887	(11,333)
Major Streets Funds - Capital outlay	77,800	83,556	(5,756)
Local Streets Funds - Routine maintenance	77,349	82,373	(5,024)
Local Streets Funds - Capital outlay	967,000	971,858	(4,858)

Other Supplemental Information

City of Richmond, Michigan

	Special Revenue Funds			
	Fire Department	Mausoleum	Cemetery	Parks and Recreation
Assets				
Cash and investments	\$ 68,307	\$ 53,010	\$ 99,222	\$ 82,640
Due from other governmental units	11,642	-	-	-
Total assets	<u>\$ 79,949</u>	<u>\$ 53,010</u>	<u>\$ 99,222</u>	<u>\$ 82,640</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 281
Due to component unit	-	-	-	-
Total liabilities	-	-	-	281
Fund Balances				
Nonspendable - Library endowment	-	-	-	-
Restricted:				
Library	-	-	-	-
Mausoleum	-	53,010	-	-
Committed:				
Fire operations	26,064	-	-	-
Parks and recreation	-	-	-	82,359
Cemetery	-	-	99,222	-
Fire equipment replacement	53,885	-	-	-
Assigned - Capital projects	-	-	-	-
Total fund balances	<u>79,949</u>	<u>53,010</u>	<u>99,222</u>	<u>82,359</u>
Total liabilities and fund balances	<u>\$ 79,949</u>	<u>\$ 53,010</u>	<u>\$ 99,222</u>	<u>\$ 82,640</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017**

Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
Vehicle and Repairs	Street Improvement	Library Endowment	
\$ 29,619	\$ 381,623	\$ 65,228	\$ 779,649
-	-	-	11,642
\$ 29,619	\$ 381,623	\$ 65,228	\$ 791,291
\$ -	\$ -	\$ -	\$ 281
15,440	-	-	15,440
15,440	-	-	15,721
-	-	10,000	10,000
-	-	55,228	55,228
-	-	-	53,010
-	-	-	26,064
-	-	-	82,359
-	-	-	99,222
-	-	-	53,885
14,179	381,623	-	395,802
14,179	381,623	65,228	775,570
\$ 29,619	\$ 381,623	\$ 65,228	\$ 791,291

City of Richmond, Michigan

	Special Revenue Funds			
	Fire Department	Mausoleum	Cemetery	Parks and Recreation
Revenue				
Federal grants	\$ -	\$ -	\$ -	\$ 4,442
State-shared revenue and grants	-	-	-	1,500
Charges for services	123,469	-	31,433	68,316
Interest	22	25	443	5
Other revenue:				
Donations	-	-	-	300
Other miscellaneous income	20	-	25	5,125
Total revenue	123,511	25	31,901	79,688
Expenditures - Current				
Public service	-	280	45,966	-
Public safety	257,458	-	-	-
Recreation and culture	-	-	-	216,891
Capital outlay	-	-	-	-
Total expenditures	257,458	280	45,966	216,891
Excess of Revenue (Under) Over Expenditures	(133,947)	(255)	(14,065)	(137,203)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,601	-	-	-
Transfers in	144,009	-	33,000	140,000
Transfers out	-	-	-	-
Total other financing sources (uses)	146,610	-	33,000	140,000
Net Change in Fund Balances	12,663	(255)	18,935	2,797
Fund Balances - Beginning of year	67,286	53,265	80,287	79,562
Fund Balances - End of year	\$ 79,949	\$ 53,010	\$ 99,222	\$ 82,359

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017

Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
Vehicle and Repairs	Street Improvement	Library Endowment	
\$ -	\$ -	\$ -	\$ 4,442
-	-	-	1,500
-	-	-	223,218
7	359	2,111	2,972
-	178,000	-	178,300
-	-	-	5,170
7	178,359	2,111	415,602
-	-	-	46,246
-	-	-	257,458
-	-	-	216,891
29,237	-	-	29,237
29,237	-	-	549,832
(29,230)	178,359	2,111	(134,230)
-	-	-	2,601
43,409	102,000	-	462,418
-	(960,000)	-	(960,000)
43,409	(858,000)	-	(494,981)
14,179	(679,641)	2,111	(629,211)
-	1,061,264	63,117	1,404,781
\$ 14,179	\$ 381,623	\$ 65,228	\$ 775,570