

*City of the Village of Douglas
Allegan County, Michigan*

FINANCIAL STATEMENTS

Year ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

City Council
City of the Village of Douglas, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of the Village of Douglas, Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of the Village of Douglas, Michigan, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules, as listed in the 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, who 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 supplementary 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.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of the Village of Douglas, Michigan's basic financial statements. The combining nonmajor fund financial statements and the component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the budgetary comparison schedules for the component units (supplementary information) are the responsibility of management and were derived from and relate 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Siegfried Crandall P.C.

October 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of the Village of Douglas' (the City) financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$157,215 (1 percent) as a result of this year's operations.
- Total net position at the end of the fiscal year was \$11,961,424. However, \$7,657,754 of this total represents a net investment in capital assets and \$1,358,629 is restricted for various purposes. Consequently, the City's unrestricted net position is \$2,945,041, without constraints established by debt covenants, enabling legislation, or other legal requirements.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$1,994,543, which represents 64 percent of the actual total General Fund expenditures and transfers out for the fiscal year.

Overview of the financial statements

The City's annual report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and component unit financial statements. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how general government services, like public safety and public works, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short-term and long-term financial information about the activities the government operates like a business, such as the Equipment Rental internal service fund.
 - Agency funds statements provide information about the financial relationships in which the City acts solely as an agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the government-wide financial statements for 2017 and 2016 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors, such as changes in the City's property tax base and the condition of the City's capital assets.

The government-wide financial statements present governmental activities. All of the City's basic services are included here, such as general government, public works, etc. Property taxes and intergovernmental revenues generally fund these services.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law (like the street funds) and by bond agreements.
- The City Council establishes other funds to control and manage money for particular purposes (like the Water and Sewer Revolving Fund) or to show that it is properly using certain taxes and other revenues.

The City has three types of funds:

- *Governmental funds.* The City's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds.* Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-term and short-term financial information. The City uses an internal service fund to report activities that provide services for the City's other programs and activities. The City's internal service fund is its Equipment Fund that manages the City's fleet of vehicles and equipment. The Equipment Fund has been included within the governmental activities in the government-wide financial statements.
- *Agency funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the City. The City is responsible for ensuring that the assets reported in the agency funds are used for their intended purposes. The City's agency balances are reported in a separate Statement of Assets and Liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$11,961,424. However, \$7,657,754 of this total is invested in capital assets and \$1,358,629 is restricted for various purposes. Consequently, the City has unrestricted net position of \$2,945,041.

*Condensed financial information
Net position*

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 4,724,656	\$ 4,368,699
Capital assets	<u>7,772,811</u>	<u>8,234,204</u>
Total assets	<u>12,497,467</u>	<u>12,602,903</u>
Deferred outflows of resources	<u>512,914</u>	<u>596,880</u>
Current and other liabilities	933,900	1,041,302
Long-term debt	<u>115,057</u>	<u>312,691</u>
Total liabilities	<u>1,048,957</u>	<u>1,353,993</u>
Deferred inflows of resources	<u>-</u>	<u>41,581</u>
Net position:		
Net investment in capital assets	7,657,754	8,027,145
Restricted	1,358,629	700,474
Unrestricted	<u>2,945,041</u>	<u>3,076,590</u>
Total net position	<u>\$ 11,961,424</u>	<u>\$ 11,804,209</u>

Changes in net position

The City's total revenues totaled \$3,528,299, compared to \$3,068,925 in the prior year. Nearly 53 percent of the City's revenues comes from property taxes. Almost 26 percent of the City's revenues comes from charges for services and 15 percent comes from operating grants. State shared revenue represents less than 3 percent of the City's total revenues.

*Condensed financial information
Changes in net position*

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 903,907	\$ 745,299
Operating grants and contributions	532,235	342,710
Capital grants and contributions	-	1,459
General revenues:		
Property taxes	1,855,301	1,785,369
State shared revenue	101,965	140,657
Local community stabilization revenue	33,756	-
Investment income	38,140	4,110
Other	62,995	49,321
	<u>3,528,299</u>	<u>3,068,925</u>
Expenses:		
General government	629,293	664,674
Public safety	1,273,091	957,818
Public works	1,015,239	1,069,039
Community and economic development	320,692	232,676
Recreation and culture	127,799	136,929
Interest on long-term debt	4,970	9,254
	<u>3,371,084</u>	<u>3,070,390</u>
Changes in net position	<u>157,215</u>	<u>(1,465)</u>
Net position, end of year	<u>\$ 11,961,424</u>	<u>\$ 11,804,209</u>

Governmental activities

Governmental activities increased the City's net position by \$157,215 in the current year compared to a \$1,465 decrease in the prior year. The increase in net position was higher this year as the \$459,374 increase in revenues outpaced the \$300,694 increase in expenses.

Revenues rose due to a \$189,525 increase in operating grants, related to \$182,700 in state grants that funded brownfield cleanup costs and engineering fees, and a \$115,544 increase in charges for services, primarily related to an increase in intergovernmental charges related to the Police Department.

The increase in expenses can be primarily attributed to a \$315,273 increase in public safety expenses associated with higher personnel costs of the Police Department, which included an additional \$263,000 contribution to the defined benefit plan.

The total cost of governmental activities this year was \$3,371,084. After subtracting the direct charges to those who directly benefited from the programs (\$882,375) and operating grants (\$532,235), the "public benefit" portion covered by property taxes, state shared revenue, and other general revenues was \$1,934,942.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,345,416, an increase of \$364,944 in comparison to the prior year.

The General Fund is the primary operating fund of the City. At the end of the fiscal year, its fund balance was \$2,946,206, which represents an increase of \$159,380, as revenues (\$3,233,922) were sufficient to cover expenditures (\$2,837,042) and net transfers out (\$257,500) in the current year.

The Major Street Fund experienced an increase in fund balance of \$106,691, as the fund's revenues (\$136,279) and transfers from the General Fund (\$135,000) exceeded expenditures in the current year. The fund balance at the end of the fiscal year was \$513,103 and is restricted for future street preservation costs of the City's major streets.

The Water and Sewer Revolving Fund experienced an increase in fund balance of \$42,710. Revenues, in the amount of \$63,463, which are primarily charges for services for utility connection fees, were sufficient to cover all expenditures (\$20,753) incurred during the current year. At the end of the fiscal year, fund balance was \$501,626, which is restricted for utility system improvements.

General Fund budgetary highlights

The City amended the General Fund budget during the year to account for previously unanticipated revenues and expenditures and to reallocate appropriations among activities. Total budgeted revenues were increased by \$233,726, primarily due to a \$186,000 increase in state grants, related to grants that funded brownfield cleanup costs and engineering fees. Total appropriations were increased by \$311,226, mainly to increase community and economic development expenditures, by \$178,000, related to cleanup costs, and capital outlay expenditures, by \$137,480, related to capital costs that were not anticipated in the original budget.

Total revenues were \$55,396 higher than budgeted, primarily because state grants were \$32,928 higher than expected. Total expenditures were \$225,484 lower than the amounts appropriated, primarily because public safety and public works expenditures were \$79,451 and \$39,836 less than planned, respectively. Public safety expenditures were lower than expected as Police Department personnel costs were lower than budgeted and public works expenditures were lower than expected as Department of Public Works personnel costs were lower than expected. These variances resulted in a \$280,880 positive budget variance, with a \$159,380 increase in fund balance compared to a budgeted decrease in fund balance of \$121,500.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets as of June 30, 2017, amounts to \$7,772,811 (net of accumulated depreciation). This investment includes a broad range of assets, including land, buildings, equipment, and infrastructure. This amount represents a net decrease of \$461,393, comprised of \$211,242 in additions and \$672,635 in provisions for depreciation.

This year's major capital asset additions included:

- Storm water improvements were made at a cost of \$49,281
- A 2016 pickup was purchased for \$42,670
- A 2017 pickup was purchased for \$33,375
- A police car was acquired at a cost of \$29,379
- Fencing for the dog park was purchased at a cost of \$19,999

More detailed information about the City's capital assets is presented in Note 5 of the notes to the basic financial statements.

Debt

At year end, the City's long-term debt totaled \$115,057, which represents bonds payable, in the amounts of \$50,000, and various notes payable, in the amount of \$65,057. During the fiscal year ending June 30, 2017, the City issued no new debt and made the required principal payments totaling \$92,002, which represents the reduction in debt.

Long-term obligations also include compensated absences, in the amount of \$108,062.

More detailed information about the City's long-term obligations is presented in Note 7 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's 2018 fiscal year budget does not anticipate significant changes in the amounts or composition of its major revenue sources. The City has budgeted expenditures for the upcoming year at amounts sufficient to support its ongoing programs and activities, while maintaining the current levels of its resources.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

City of the Village of Douglas
Robert Drexler, City Treasurer
86 West Center Street
Douglas, MI 49406

Phone: (269) 857-1438

BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of the Village of Douglas, Michigan (the City), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

As required by generally accepted accounting principles, these financial statements present the City (the primary government, located in Allegan County) and its component units described below, for which the City is financially accountable. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government. Separate financial statements for the component units have not been issued, as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component units.

Discretely presented component units:

Downtown Development Authority - The Authority was established, pursuant to Public Act 197 of 1975, as amended, to correct and prevent deterioration and promote economic growth within the downtown district. The Authority is fiscally dependent on the City because the City Council appoints the Authority's governing body and approves its budget. The City is also obligated to provide some of its tax revenues to the Authority, through tax increment financing, which represents a financial burden on the City. Fiscal dependence and the financial burden relationship make the City financially accountable for the Authority and require the City to report it in its financial statements.

Kalamazoo Lake Harbor Authority - The Authority was established pursuant to Public Act 94 of 2008, as amended, to obtain funding to maintain the Kalamazoo River harbor. The Authority is included in the reporting entity due to its close relation to, and financial integration with, the City.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation:

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

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the City generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Licenses and permits, state grants, contributions from local units, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund, a special revenue fund, accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The Water and Sewer Revolving Fund, a capital project fund, accounts for resources that are restricted for future water and sewer infrastructure improvements. Revenues are primarily derived from connection fees.

Additionally, the City reports the following fund types:

An internal service fund is used to account for equipment management services provided to other departments of the City on a cost-reimbursement basis.

The agency fund accounts for the collection and disbursement of property taxes due to other governmental units. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges for services. Operating expenses, for proprietary fund, include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity:

Cash and investments - Cash is considered to be demand deposits, time deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value, with changes in value recognized in the operating statement of each fund. Realized and unrealized gains and losses are included in investment income.

Receivables - No allowance for uncollectible accounts has been recorded, as the City considers all receivables to be fully collectible.

Prepaid items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets and sewer and water lines), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$3,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value as of the date received. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The City has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

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

Buildings	40 years
Improvements	10 - 15 years
Machinery and equipment	3 - 10 years
Infrastructure	10 - 40 years

Deferred outflows of resources - The statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position that applies to a future period. The related expense will not be recognized until a future event occurs. The City reports deferred amounts relating to the defined benefit pension plan, associated with changes in expected and actual investment returns, assumptions, and benefits, which are discussed in Note 10. No deferred outflows of resources affect the governmental funds financial statements.

Compensated absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Pension - For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity (continued):

Deferred inflows of resources - The governmental funds balance sheet includes a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in equity that applies to a future period. The related revenues will not be recognized until a future event occurs. The governmental funds report unavailable revenues, which occur only under the modified accrual basis of accounting, from a long-term receivable from another governmental unit. This amount is deferred and recognized as revenue in the period that the amount becomes available.

Net position - Net position represents the difference between assets and deferred outflows of resources, and liabilities. The City reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets and related deferred outflows of resources reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or donors. Restricted net position is reduced by liabilities related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the City.

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 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 equity - Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are not in spendable form (prepaids). Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to management, per the City's fund balance resolution. Unassigned fund balance is the residual classification for all other amounts. When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use the restricted fund balance first, then committed, assigned, and finally unassigned fund balance. The City Council has adopted a minimum fund balance policy in which the total fund balance of the General Fund (excluding any restricted balances) will be equal to at least 25 percent of the current year General Fund expenditures. If the General Fund balance falls below the minimum range, the City will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, at which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

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. Accordingly, actual results could vary from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. The City did not have any reportable budget variances at year end.

NOTE 3 - CASH AND INVESTMENTS

At June 30, 2017, cash and investments are classified in the accompanying financial statements as follows:

	<u>Primary government</u>			
	<u>Governmental activities</u>	<u>Agency Fund</u>	<u>Component units</u>	<u>Totals</u>
Statement of net position:				
Cash	\$ 2,603,417	\$ 2,276	\$ 87,880	\$ 2,693,573
Investments	<u>1,567,313</u>	<u>-</u>	<u>-</u>	<u>1,567,313</u>
Totals	<u>\$ 4,170,730</u>	<u>\$ 2,276</u>	<u>\$ 87,880</u>	<u>\$ 4,260,886</u>

At June 30, 2017, cash and investments consist of the following:

Cash on hand	\$ 25
Deposits with financial institutions	2,693,548
Investments	<u>1,567,313</u>
Total	<u>\$ 4,260,886</u>

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the City’s investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City’s deposits are in accordance with statutory authority.

Custodial credit risk for deposits is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. The City’s investment policy does not specifically address custodial credit risk for deposits. As of June 30, 2017, \$492,204 of the City’s bank balances of \$2,722,820 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City maintains individual and pooled bank accounts for all of its funds and its component units. Due to the use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and the component units.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments - State statutes and the City's investment policy authorize the City to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds composed of otherwise legal investments; and f) investment pools organized under the local government investment pool act. The City's investments are summarized as follows:

<i>Investment</i>	<i>Fair value</i>	<i>Maturity</i>	<i>Rating</i>	<i>Source</i>
MBIA CLASS Fund	\$ 132,554	N/A	AAAm	S&P
U.S. government agency securities:				
Federal Home Loan Bank bonds	633,998	2019 - 2021	AA+	S&P
Federal Home Loan Mortgage Corporation bonds	543,763	2018 - 2021	AA+	S&P
Federal National Mortgage Association notes	158,662	2019 - 2021	AA+	S&P
Federal Farm Credit Bank	<u>98,336</u>	2017 - 2022	AA+	S&P
	<u>\$ 1,567,313</u>			

Fair value measurement - The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The U.S. government agency securities were valued using observable fair values of similar assets (Level 2). The MBIA CLASS Fund was measured at net asset value (or its equivalent) as a practical expedient, and, accordingly, has not been classified in the fair value hierarchy.

The City's investments are subject to several types of risk, which are discussed below:

Custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State law does not require, and the City's investment policy does not contain, requirements that would limit the exposure to custodial credit risk for investments. At year end, all of the U.S. government agency securities were uninsured and unregistered and held by the same broker-dealer (counterparty) that purchased the securities for the City.

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy does not contain requirements that would limit the exposure to credit risk for investments. The credit quality ratings of the City's investments are identified above.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law and the City's investment policy place no limitations on the amount that can be invested in any one issuer. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security of issuer will be minimized. All investments held at year end are reported above.

Interest rate risk. Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment's fair value due to changes in market interest rates. The City's investment policy has no specific limitations with respect to maturities of investments. The maturities of the City's investments are identified above.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2017, for the City’s individual major funds, all of which are due within one year and are considered fully collectible, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Interest</u>	<u>Intergovern- mental</u>	<u>Totals</u>
General	\$ 12,770	\$ 375	\$ 40,801	\$ 53,946
Major Street	-	-	21,187	21,187
Water and Sewer Revolving	-	-	465,383	465,383
Nonmajor	367	-	9,031	9,398
	<u>367</u>	<u>-</u>	<u>9,031</u>	<u>9,398</u>
Totals	<u>\$ 13,137</u>	<u>\$ 375</u>	<u>\$ 536,402</u>	<u>\$ 549,914</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land				
Land	\$ 290,559	\$ -	\$ -	\$ 290,559
Construction in progress	<u>-</u>	<u>13,897</u>	<u>-</u>	<u>13,897</u>
Subtotal	<u>290,559</u>	<u>13,897</u>	<u>-</u>	<u>304,456</u>
Capital assets being depreciated:				
Buildings	870,059	17,741	-	887,800
Improvements	736,771	-	-	736,771
Machinery and equipment	1,064,278	130,323	(56,494)	1,138,107
Infrastructure	<u>12,194,918</u>	<u>49,281</u>	<u>-</u>	<u>12,244,199</u>
Subtotal	<u>14,866,026</u>	<u>197,345</u>	<u>(56,494)</u>	<u>15,006,877</u>
Less accumulated depreciation for:				
Buildings	(585,434)	(39,106)	-	(624,540)
Improvements	(355,832)	(32,699)	-	(388,531)
Machinery and equipment	(802,996)	(111,332)	56,494	(857,834)
Infrastructure	<u>(5,178,119)</u>	<u>(489,498)</u>	<u>-</u>	<u>(5,667,617)</u>
Subtotal	<u>(6,922,381)</u>	<u>(672,635)</u>	<u>56,494</u>	<u>(7,538,522)</u>
Total capital assets being depreciated	<u>7,943,645</u>	<u>(475,290)</u>	<u>-</u>	<u>7,468,355</u>
Governmental activities capital assets, net	<u>\$ 8,234,204</u>	<u>\$ (461,393)</u>	<u>\$ -</u>	<u>\$ 7,772,811</u>

Sometimes, the City records capitalizable costs, as part of current expenditure functions, for purposes of administrative control. In fiscal year 2017, capitalizable costs of \$4,082 were reported within the public works function in the statement of revenues, expenditures, and changes in fund balances - governmental funds (page 14).

Depreciation expense was charged to the City's governmental functions as follows:

Governmental activities:	
General government	\$ 38,496
Public safety	37,626
Public works	514,791
Recreation and culture	16,416
Depreciation on internal service fund assets	<u>65,306</u>
Total governmental activities	<u>\$ 672,635</u>

NOTE 6 - PAYABLES

Payables as of June 30, 2017, for the City’s individual major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Intergovern- mental</u>	<u>Totals</u>
General	\$ 24,759	\$ 41,244	\$ 32,239	\$ 98,242
Major Street	4,082	6,149	-	10,231
Nonmajor	-	1,761	-	1,761
Totals	<u>\$ 28,841</u>	<u>\$ 49,154</u>	<u>\$ 32,239</u>	<u>\$ 110,234</u>

NOTE 7 - LONG-TERM OBLIGATIONS

At June 30, 2017, long-term obligations are comprised of the following:

Governmental activities:

Bonds payable:

\$325,000 2010 Capital improvement bonds - payable in annual installments ranging from \$40,000 to \$50,000, plus interest at 1.90% to 3.65%; final payment due October 2017 \$ 50,000

Notes payable:

\$190,000 2006 due in monthly installments ranging from \$689 to \$1,509, plus interest at 5.14%; final payment due March 2021 58,965

\$8,910 2013 capital lease due in monthly installments of \$149, with interest at 0.0 %; final payment due July 2018 1,930

\$11,350 2014 capital lease due in monthly installments of \$189, with interest at 0.0 %; final payment due May 2019 4,162

Total bonds and notes 115,057

Compensated absences 108,062

Total governmental activities long-term obligations \$ 223,119

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

Long-term obligation activity for the year ended June 30, 2017, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Bonds payable:					
2010 capital improvement bonds	\$ 100,000	\$ -	\$ (50,000)	\$ 50,000	\$ 50,000
Notes payable:					
2003 loan agreement	23,118	-	(23,118)	-	-
2006 loan agreement	73,797	-	(14,832)	58,965	15,534
2013 capital lease	3,712	-	(1,782)	1,930	1,782
2014 capital lease	6,432	-	(2,270)	4,162	2,270
Total bonds and notes	207,059	-	(92,002)	115,057	69,586
Compensated absences	105,632	63,514	(61,084)	108,062	-
Total governmental activities	<u>\$ 312,691</u>	<u>\$ 63,514</u>	<u>\$ (153,086)</u>	<u>\$ 223,119</u>	<u>\$ 69,586</u>

At June 30, 2017, debt service requirements, with the exception of compensated absences, are as follows:

<u>Year ended June 30,</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 69,586	\$ 3,642
2019	18,402	1,912
2020	17,032	1,032
2021	10,037	180
Totals	<u>\$ 115,057</u>	<u>\$ 6,766</u>

NOTE 8 - INTERFUND TRANSFERS

For the year ended June 30, 2017, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
General	\$ 4,500	Nonmajor governmental fund	\$ 4,500
Major Street	135,000		
Local Street	<u>127,000</u>		
Subtotal	<u>262,000</u>	General	<u>262,000</u>
Total	<u>\$ 266,500</u>	Total	<u>\$ 266,500</u>

The transfers out of the General Fund to the Major Street and Local Street funds represent unrestricted revenues, collected in the General Fund, that were used to support street improvement and maintenance expenditures accounted for in the Major Street and Local Street funds.

The transfers out of the nonmajor governmental fund to the General Fund represent support for operational costs.

NOTE 9 - JOINT VENTURES AND JOINTLY-GOVERNED ORGANIZATION

Kalamazoo Lake Sewer and Water Authority:

The Kalamazoo Lake Sewer and Water Authority is a joint venture of the City, the City of Saugatuck, and the Township of Saugatuck. The Authority's administrative board consists of five members appointed by each of the three participating units. The Authority was formed to operate, maintain, administer and manage the water and sewerage systems located within the constituent units of government. The City did not provide support to the Authority in fiscal year 2017. Any infrastructure constructed for the City, by the Authority, is recorded as infrastructure on the City's records. Complete audited financial statements for the Authority can be obtained from their offices. The City has pledged its full faith and credit for its obligation to pay its portion (55.38 percent) of the Authority's debt service under in the event that the Authority is unable to meet its debt service requirements. The Authority's loan balance at February 28, 2017, was \$1,125,090.

Saugatuck Township Fire District:

The Saugatuck Township Fire District is a joint venture of the City, the City of Saugatuck, and the Township of Saugatuck. The District's administrative board consists of seven members, one at-large member and two members from each of the three participating units. The budget of the District is approved at a joint meeting of the participating units. The City did not provide support to the District in fiscal year 2017. The District entered into an installment purchase agreement in March, 2017 to purchase a fire truck. The City has pledged its limited full faith and credit for its obligation to pay a portion of the District's debt service, under the installment purchase agreement, in the event that the District is unable to meet its debt service requirements. The loan balance at June 30, 2017, is \$161,337.

Interurban Transit Authority:

The City, in conjunction with the City of Saugatuck and the Township of Saugatuck, created the Interurban Transit Authority, which is considered a jointly-governed organization. The Authority's administrative board consists of six members, two members appointed by each of the three participating units. The City of the Village of Douglas did not provide support to the Authority in fiscal year 2017. The City does not retain an ongoing financial interest or responsibility in the Authority and is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan description:

The City participates in the Municipal Employees’ Retirement System of Michigan (MERS). MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly-available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits provided:

The City’s defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries and covers all full-time employees at the City. Retirement benefits for eligible employees vary by division/bargaining unit and are calculated as 2.0% to 2.25% of the employee’s five-year final average compensation times the employee’s years of service, with a maximum of 80% of final average compensation. Normal retirement age is 60, with early retirement at a reduced benefit at age 50, with 25 years of service, or age 55, with 15 years of service. Deferred retirement benefits vest after six years of credited service but are not paid until the date retirement would have occurred had the member remained an employee. Employees are not required to contribute to the plan. An employee who leaves service may withdraw their contributions, plus any accumulated interest. Benefit terms, within the parameters of MERS, are established and amended by the authority of the City Board.

Employees covered by benefit terms:

At the December 31, 2016, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>18</u>
 Total	 <u><u>40</u></u>

Contributions:

The City is required to contribute amounts at least equal to an actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, City contributions ranged from 11.71% to 16.49% of covered payroll, plus an additional payment of \$263,000, for a total of \$395,427, to the plan. Currently, employee contributions range from 0% to 1.8%.

Net pension liability:

The City’s net pension liability reported at June 30, 2017, was determined using a measurement of the total pension liability and the pension net position as of December 31, 2016. The total pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	3.75%	In the long term
Investment rate of return	7.75%	net of investment expense, including inflation

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued)

Mortality rates were based on a blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables all with a 50 percent male and 50 percent female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table with a 50 percent male and 50 percent female blend is used to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of the 2015 Experience Study, which is the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following schedule:

<i>Asset class</i>	<i>Target allocation</i>	<i>Long-term expected real rate of return</i>
Global equity	57.50%	5.02%
Global fixed income	20.00%	2.18%
Real assets	12.50%	4.23%
Diversifying strategies	10.00%	6.56%

Discount rate:

The discount rate used to measure the total pension liability is 8.00% for 2016. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued)

Changes in the net pension liability:

	<i>Increase (decrease)</i>		
	<i>Total pension liability</i>	<i>Plan fiduciary net position</i>	<i>Net pension liability</i>
	<i>(a)</i>	<i>(b)</i>	<i>(a) - (b)</i>
Balances at December 31, 2015	\$ 3,265,426	\$ 2,346,413	\$ 919,013
Changes for the year:			
Service cost	99,347	-	99,347
Interest	260,000	-	260,000
Differences between expected actual experience	51,044	-	51,044
Employer contributions	-	332,655	(332,655)
Employee contributions	-	7,538	(7,538)
Net investment income	-	284,499	(284,499)
Benefit payments, including refunds	(130,190)	(130,190)	-
Administrative expenses	-	(5,570)	5,570
Net changes	<u>280,201</u>	<u>488,932</u>	<u>(208,731)</u>
Balances at December 31, 2016	<u>\$ 3,545,627</u>	<u>\$ 2,835,345</u>	<u>\$ 710,282</u>

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate.

	<i>1% Decrease</i>	<i>Current rate</i>	<i>1% Increase</i>
	<i>(7.00%)</i>	<i>(8.00%)</i>	<i>(9.00%)</i>
City's net pension liability	<u>\$ 1,140,404</u>	<u>\$ 710,282</u>	<u>\$ 347,159</u>

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report, which can be found at www.mersofmichigan.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due. Benefit payments are recognized as expense when due and payable in accordance with benefit terms.

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension expense and deferred outflows of resources related to the pension:

For the fiscal year ended June 30, 2017, the City recognized pension expense of \$229,207. At June 30, 2017, the City reported deferred outflows of resources related to the pension plan from the following sources:

<u>Source</u>	<u>Deferred outflows of resources</u>
Difference between projected and actual earnings	\$ 94,591
Difference between expected and actual experience	10,562
Difference in assumptions	<u>79,296</u>
	184,449
Contributions made subsequent to the measurement date	<u>328,465</u>
Total	<u>\$ 512,914</u>

The amount reported as deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in fiscal year 2018.

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Deferred outflows of resources</u>
2018	\$ 78,134
2019	78,134
2020	43,819
2021	<u>(15,638)</u>
Totals	<u>\$ 184,449</u>

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The City has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 12 - PROPERTY TAX REVENUE

The 2016 taxable valuation of the City approximated \$141,900,000, on which ad valorem taxes levied consisted of 13.0818 mills for operating purposes raising approximately \$1,856,000, which is recognized in the fund financial statements as property tax revenue.

NOTE 13 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended June 30, 2017, is as follows:

Cumulative excess revenues, beginning of year	<u>\$ -</u>
Revenues	\$ 45,346
Expenses	<u>49,764</u>
Deficiency of revenues over expenses	<u>\$ (4,418)</u>
Cumulative excess revenues, end of year	<u>\$ -</u>

NOTE 14 - RESTRICTED NET POSITION

In the government-wide statement of net position, the governmental activities report restricted net position in the amount of \$1,358,629. Of this amount, \$843,312 is restricted by enabling legislation for public works expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION