



**CITY OF REED CITY, MICHIGAN**

**FINANCIAL STATEMENTS**

***FOR THE YEAR ENDED JUNE 30, 2015***



*Vredeveld Haefner LLC*

*CPA's*

# CITY OF REED CITY

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## INDEPENDENT AUDITORS' REPORT

September 22, 2015

Honorable Mayor and Members of the City Council  
City of Reed City, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City'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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows 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 on pages 3 through 8 and the information on pages 39 through 42 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.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund financial statements and schedules 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 combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Uredexeld Haefner LLC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of Reed City (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

### Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2014 fiscal year as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,885,170 (net position). Of this amount, only \$289,569 (2%) represents unrestricted net position and is available to meet the government's ongoing obligations to the citizens and creditors. This is down from the previous years' amount of \$1,643,272 (11%) of unrestricted net position. This is mainly due to recording net pension liability for the first time in accordance with GASB 68.
- The City's total outstanding long-term debt decreased by \$256,785 during the current fiscal year.
- The General Fund's fund balance increased by \$40,873 for the year.
- The City library became a District Library effective March 1, 2014. During the year ended June 30, 2015, the City transferred capital assets to the Library.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, and interest on long-term debt. The business-type activities of the City consist of water and sewer operations.

**Fund financial statements** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general and major streets funds which are both considered major funds. Data is combined into a single aggregate presentation for the other governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriations budget for its general fund and all special revenue funds as required by state law. Budgetary comparison statements have been provided as required supplementary information for the general and major streets funds to demonstrate legal compliance.

**Proprietary funds** The City maintains enterprise funds which are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for its motor pool. Because it primarily benefits the City's governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide information for water and sewer operations, which are considered to be major funds of the City.

**Fiduciary funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This includes this management discussion and analysis, major fund budget to actual schedules, and certain pension plan trend information.



## Government-wide Financial Analysis

**Statement of Net Position** As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of Reed City, assets and deferred outflows exceeded liabilities by \$13,885,170 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

### Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Current and other assets	\$ 1,441,272	\$ 1,446,236	\$ 1,661,114	\$ 1,548,126	\$ 3,102,386	\$ 2,994,362
Capital assets	4,018,393	4,267,219	13,053,342	13,538,413	17,071,735	17,805,632
<b>Total assets</b>	<b>5,459,665</b>	<b>5,713,455</b>	<b>14,714,456</b>	<b>15,086,539</b>	<b>20,174,121</b>	<b>20,799,994</b>
<b>Deferred outflows of resources</b>						
Pension contributions and deficit investment returns	90,077	-	45,952	-	136,029	-
<b>Liabilities</b>						
Current liabilities	150,513	309,219	277,586	282,231	428,099	591,450
Long-term liabilities	1,703,556	666,005	4,293,325	3,923,448	5,996,881	4,589,453
<b>Total liabilities</b>	<b>1,854,069</b>	<b>975,224</b>	<b>4,570,911</b>	<b>4,205,679</b>	<b>6,424,980</b>	<b>5,180,903</b>
<b>Net position</b>						
Net investment in capital assets	3,449,393	3,648,219	9,181,251	9,482,322	12,630,644	13,130,541
Restricted	595,854	485,414	369,103	359,863	964,957	845,277
Unrestricted	(349,574)	604,598	639,143	1,038,675	289,569	1,643,273
<b>Total net position</b>	<b>\$3,695,673</b>	<b>\$4,738,231</b>	<b>\$10,189,497</b>	<b>\$10,880,860</b>	<b>\$13,885,170</b>	<b>\$15,619,091</b>

The deficit unrestricted net position in governmental activities is the result of recording the net pension liability in 2015 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68.

Approximately 2% of the City's net position reflects unrestricted net position which is available for future operation while a significant portion (91%) of net position is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Statement of Activities** The City's total revenue for the fiscal year ended June 30, 2015, was \$3,134,440 while total cost of all programs and services was \$3,416,320. This results in a decrease in net position of \$281,880. The business-type activities decrease in net position of \$200,857 was primarily the result of increased depreciation from prior year capital construction projects and reduction in charges. The governmental activities decreased net position by \$81,023.

Beginning net position was reduced by \$961,535 and \$490,506 in the governmental and business-type activities respectively to reflect the implementation of GASB 68.

The following table presents a summary of the changes in net position for the years ended June 30.

### Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program revenues						
Charges for services	\$182,430	\$198,658	\$1,644,705	\$1,673,364	\$1,827,135	\$1,872,022
Operating grants and contributions	445,741	546,873	-	-	445,741	546,873
Capital grants and contributions	8,830	453,287	-	-	8,830	453,287
General revenues						
Property taxes	540,176	537,660	-	-	540,176	537,660
State shared revenues	236,948	232,271	-	-	236,948	232,271
Other	64,547	53,395	11,063	10,620	75,610	64,015
<b>Total revenues</b>	<b>1,478,672</b>	<b>2,022,144</b>	<b>1,655,768</b>	<b>1,683,984</b>	<b>3,134,440</b>	<b>3,706,128</b>
<b>Expenses</b>						
General government	383,823	677,907	-	-	383,823	677,907
Public safety	598,321	663,284	-	-	598,321	663,284
Public works	380,118	334,418	-	-	380,118	334,418
Culture and recreation	233,151	351,049	-	-	233,151	351,049
Interest on long-term debt	26,282	28,385	-	-	26,282	28,385
Sewer	-	-	1,389,275	1,371,659	1,389,275	1,371,659
Water	-	-	405,350	392,827	405,350	392,827
<b>Total expenses</b>	<b>1,621,695</b>	<b>2,055,043</b>	<b>1,794,625</b>	<b>1,764,486</b>	<b>3,416,320</b>	<b>3,819,529</b>
<b>Increase (decrease) in net position before transfers</b>	<b>(143,023)</b>	<b>(32,899)</b>	<b>(138,857)</b>	<b>(80,502)</b>	<b>(281,880)</b>	<b>(113,401)</b>
<b>Transfers in (out)</b>	<b>62,000</b>	<b>62,000</b>	<b>(62,000)</b>	<b>(62,000)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>(81,023)</b>	<b>29,101</b>	<b>(200,857)</b>	<b>(142,502)</b>	<b>(281,880)</b>	<b>(113,401)</b>
<b>Net position – beginning, as restated</b>	<b>3,776,696</b>	<b>4,709,130</b>	<b>10,390,354</b>	<b>11,023,362</b>	<b>14,167,050</b>	<b>15,732,492</b>
<b>Net position – ending</b>	<b>\$3,695,673</b>	<b>\$4,738,231</b>	<b>\$10,189,497</b>	<b>\$10,880,860</b>	<b>\$13,885,170</b>	<b>\$15,619,091</b>

**Governmental Activities** During the year, the City invested \$383,823 or 24% of governmental activities expenses in general government. Public safety, which includes the police and fire departments, was \$598,321 or 37% of governmental activities expenses while culture and recreation, public works and interest on long-term debt made up the remaining 39% of governmental activities expenses. The governmental activities represented above included the police department and fire department operations, department of public works, library, streets, and administrative functions.

**Business-type Activities** These activities consist of the Water and Sewer operations.

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,288,285, an increase of \$148,981 in comparison to the prior year. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$503,818. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditure. Unassigned fund balance represents 45% of total general fund expenditures. The City Council's annual target is 25% of total general fund expenditures. The fund balance of the City's general fund increased by \$40,871 during the current fiscal year.

The Major Street Fund is used to account for the receipt and expenditure of fuel and weight taxes, distributed by the State of Michigan, that are restricted for use on major streets by Act 51. The fund balance increased by \$76,010 during the current fiscal year.

**Proprietary funds** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's enterprise operations consist of the water and sewer funds which provide services to most residents and businesses of the City.

## **Budgetary Highlights**

- The General Fund went from an estimated decrease in fund balance of \$13,660 to an actual increase in fund balance of approximately \$40,800. The major factors were; receipt of a (3)year "COPS" grant, and the City benefited from reduced personnel costs due to the retirement and delayed replacement of a police sergeant, and a police officer.
- Very few capital projects were undertaken within the year and large purchase items were saved until the end when verifiable balances could be used.

## **Capital Asset and Debt Administration**

**Capital assets** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounted to \$17,071,735 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

The City's significant capital asset purchases during the year include self-contained breathing apparatus gear and sewer treatment facility equipment.

Additional information on the City's capital assets can be found in Note 6 to these financial statements.

**Long-term debt** At the end of the current fiscal year, the City had total long-term debt outstanding of \$4,441,091. Of this amount, \$569,000 was for governmental activities while \$3,872,091 was for business-type activities.

The City's total long-term debt decreased during the current fiscal year primarily as a result of payment of scheduled debt service requirements.

Additional information on the City's long-term debt can be found in Note 8 to these financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

The following economic factors were considered in preparing the City's budget for the 2015-2016 fiscal year:

- In order to maintain services and perform needed maintenance the budget required \$108,000 from reserves to balance.
- The estimated \$40,000-\$50,000 in expenses to defend the City against the General Mills (Yoplait Plant) assessment appeal will reduce surplus fund balance even more.
- The Reed City DDA adoption of 2 major city projects: Hersey River dam removal for \$165,000 and Water Main replacement for \$275,000 may allow the City to significantly reduce the amount to be borrowed.
- We must be mindful that the COPS Grant that saved us \$125,000 over the past years will expire in November of 2015 and the City is obligated to continue employing the officer for another year. A budget amendment to use reserves may be necessary unless the City is successful in obtaining another COPS grant which the Police Chief is pursuing.
- The City is awaiting the decision of the Tax Tribunal judge on the Yoplait appeal and if the ruling is vastly unfavorable to the City it could reduce DDA resources by up to \$100,000 to comply with the tax refund order.
- The current budget required an increase in rates for operational needs of the sewer fund in the amount of \$.25/1000 gallons which has not been implemented yet.
- The city is attempting to work with the Townships under contract for Fire Department services to increase the collection rate of cost recovery fire run fees which could result in a contract change.
- The City is using the resources of the Rural Water Association to conduct a rate study as part of the Water System Asset Management Plan to lay out how future capital improvements will be financed.
- The DDA Tax Increment Financing (TIF) ordinance must be allowed to expire so City can collect captured tax to avoid using reserves to balance the budget.
- Even though the City is in an excellent pension plan MERS reduced earnings will surely require an increased contribution. State legislation may also require the City to reduce its unfunded liability from 33% to perhaps 10%.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, City of Reed City, 227 East Lincoln Avenue, Reed City, Michigan, 49677.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF REED CITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	Primary Government			Downtown Development Authority	Brownfield Redevelopment Authority
	Governmental Activities	Business-Type Activities	Total		
<b>Assets</b>					
Cash and pooled investments	\$ 1,244,071	\$ 1,071,055	\$ 2,315,126	\$ 370,920	\$ -
Accounts receivable, net	37,426	190,516	227,942	39,821	-
Due from other governments	108,106	-	108,106	-	-
Prepaid items	11,862	10,080	21,942	-	-
Inventory	39,807	20,360	60,167	-	-
Restricted cash and pooled investments	-	369,103	369,103	-	-
Capital assets					
Land	93,104	30,305	123,409	22,733	-
Depreciable capital assets, net	3,925,289	13,023,037	16,948,326	77,764	-
<b>Total assets</b>	<u>5,459,665</u>	<u>14,714,456</u>	<u>20,174,121</u>	<u>511,238</u>	<u>-</u>
<b>Deferred outflows of resources</b>					
Pension contributions and deficit investment returns	90,077	45,952	136,029	-	-
<b>Liabilities</b>					
Accounts payable	47,348	45,717	93,065	7,480	-
Accrued liabilities	26,879	41,391	68,270	1,749	-
Unearned revenue	16,738	385	17,123	-	-
Compensated absences	7,548	5,093	12,641	-	-
Debt due within one year	52,000	185,000	237,000	115,000	-
Noncurrent liabilities					
Compensated absences	103,287	53,627	156,914	-	-
Net pension liability	1,083,269	552,607	1,635,876	-	-
Debt due in more than one year	517,000	3,687,091	4,204,091	250,000	-
<b>Total liabilities</b>	<u>1,854,069</u>	<u>4,570,911</u>	<u>6,424,980</u>	<u>374,229</u>	<u>-</u>
<b>Net position</b>					
Net investment in capital assets	3,449,393	9,181,251	12,630,644	100,497	-
Restricted for					
Major and local streets	456,151	-	456,151	-	-
Capital projects	37,975	-	37,975	-	-
Public safety	3,460	-	3,460	-	-
Debt service	28,635	369,103	397,738	-	-
Recreation and culture	13,999	-	13,999	-	-
Permanent trusts					
Cemetery - expendable portion	22,382	-	22,382	-	-
Cemetery - corpus	33,252	-	33,252	-	-
Unrestricted (deficit)	(349,574)	639,143	289,569	36,512	-
<b>Total net position</b>	<u>\$ 3,695,673</u>	<u>\$ 10,189,497</u>	<u>\$ 13,885,170</u>	<u>\$ 137,009</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities					
General government	\$ 383,823	\$ 51,589	\$ 22,335	\$ -	\$ (309,899)
Public safety	598,321	91,604	56,307	-	(450,410)
Public works	380,118	39,237	256,214	-	(84,667)
Culture and recreation	233,151	-	110,885	8,830	(113,436)
Interest on long-term debt	26,282	-	-	-	(26,282)
<b>Total governmental activities</b>	<u>1,621,695</u>	<u>182,430</u>	<u>445,741</u>	<u>8,830</u>	<u>(984,694)</u>
Business-type activities					
Sewer	1,389,275	1,174,141	-	-	(215,134)
Water	405,350	469,136	-	-	63,786
<b>Total business-type activities</b>	<u>1,794,625</u>	<u>1,643,277</u>	<u>-</u>	<u>-</u>	<u>(151,348)</u>
<b>Total primary government</b>	<u>\$ 3,416,320</u>	<u>\$ 1,825,707</u>	<u>\$ 445,741</u>	<u>\$ 8,830</u>	<u>\$ (1,136,042)</u>
<b>Component units</b>					
Downtown Development Authority	\$ 205,943	\$ -	\$ -	\$ -	\$ (205,943)
Brownfield Redevelopment Authority	12,728	-	-	12,547	(181)
<b>Total component units</b>	<u>\$ 218,671</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,547</u>	<u>\$ (206,124)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Primary Government			Component Units	
	Governmental	Business-type	Total	Downtown	Brownfield
	<u>Activities</u>	<u>Activities</u>		<u>Development</u>	<u>Redevelopment</u>
				Authority	Authority
<b>Changes in net position</b>					
<b>Net (expense) revenue</b>	\$ (984,694)	\$ (151,348)	\$ (1,136,042)	\$ (205,943)	\$ (181)
General revenues					
Property taxes	477,320	-	477,320	457,065	-
Property taxes - library	31,666	-	31,666	-	-
Property taxes - debt service	31,190	-	31,190	-	-
State shared revenues - unrestricted	236,948	-	236,948	-	-
Investment earnings	10,600	11,063	21,663	-	-
Other general revenues	53,947	-	53,947	34,413	-
Gain (loss) on sale of asset	-	1,428	1,428	(720,754)	-
Transfers - internal activities	62,000	(62,000)	-	-	-
Total general revenues and transfers	<u>903,671</u>	<u>(49,509)</u>	<u>854,162</u>	<u>(229,276)</u>	<u>-</u>
Change in net position	(81,023)	(200,857)	(281,880)	(435,219)	(181)
<b>Net position, beginning of year, as restated</b>	<u>3,776,696</u>	<u>10,390,354</u>	<u>14,167,050</u>	<u>572,228</u>	<u>181</u>
<b>Net position, end of year</b>	<u>\$ 3,695,673</u>	<u>\$ 10,189,497</u>	<u>\$ 13,885,170</u>	<u>\$ 137,009</u>	<u>\$ -</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.



**CITY OF REED CITY**  
**GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**

**JUNE 30, 2015**

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments	\$ 619,230	\$ 261,610	\$ 319,221	\$ 1,200,061
Accounts receivable	16,924	-	20,502	37,426
Prepaid items	10,426	657	406	11,489
Inventory	39,807	-	-	39,807
Due from other governments	58,673	30,114	19,319	108,106
<b>Total assets</b>	<u>\$ 745,060</u>	<u>\$ 292,381</u>	<u>\$ 359,448</u>	<u>\$ 1,396,889</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 41,550	\$ 519	\$ 2,758	\$ 44,827
Accrued liabilities	19,766	576	270	20,612
Compensated absences	3,576	1,517	1,173	6,266
Unearned revenue	16,738	-	-	16,738
<b>Total liabilities</b>	<u>81,630</u>	<u>2,612</u>	<u>4,201</u>	<u>88,443</u>
<b>Deferred inflows</b>				
Unavailable revenue	-	-	20,161	20,161
<b>Fund balances</b>				
Non-spendable				
Prepaid items	10,426	657	406	11,489
Inventory	39,807	-	-	39,807
Permanent fund nonspendable	-	-	33,252	33,252
Restricted				
Permanent fund spendable	-	-	22,382	22,382
Streets	-	289,112	165,976	455,088
Law enforcement	-	-	3,460	3,460
Parks	-	-	13,999	13,999
Debt service	-	-	21,487	21,487
Committed				
Revolving loans	-	-	29,001	29,001
Budget stabilization	75,746	-	-	75,746
COPS grant match	21,424	-	-	21,424
Playground equipment	5,690	-	-	5,690
Assigned				
Debt service and capital projects	-	-	45,123	45,123
Police department	6,519	-	-	6,519
Unassigned	503,818	-	-	503,818
<b>Total fund balances</b>	<u>663,430</u>	<u>289,769</u>	<u>335,086</u>	<u>1,288,285</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 745,060</u>	<u>\$ 292,381</u>	<u>\$ 359,448</u>	<u>\$ 1,396,889</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION**

**JUNE 30, 2015**

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<b>Fund balances - total governmental funds</b>	<b>\$ 1,288,285</b>
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - land	93,104
Add - capital assets (net of accumulated depreciation)	3,756,029
Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.	
Add - deferred inflows	20,161
Pension contributions and deficit investment returns are not reported in the funds.	
Add - deferred outflows	87,090
An internal service fund is used by management to charge the costs of centralized services to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities.	
Add - net position of governmental activities accounted for in the internal service fund	151,690
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(98,912)
Deduct - debt payable	(549,000)
Deduct - accrued interest on debt payable	(5,416)
Deduct - net pension liability	<u>(1,047,358)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 3,695,673</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>				
Taxes	\$ 477,320	\$ -	\$ 62,856	\$ 540,176
Intergovernmental revenues				
Federal	39,896	-	-	39,896
State	236,948	176,211	73,524	486,683
Local	79,250	4,280	27,000	110,530
Licenses and permits	31,900	-	-	31,900
Charges for services	137,631	-	-	137,631
Fines	15,548	-	-	15,548
Donations	8,830	-	1,000	9,830
Interest and other	89,967	1,936	9,831	101,734
<b>Total revenues</b>	<u>1,117,290</u>	<u>182,427</u>	<u>174,211</u>	<u>1,473,928</u>
<b>Expenditures</b>				
Current				
City Council	66,241	-	-	66,241
General government	251,514	-	1,047	252,561
Public safety	475,908	-	-	475,908
Public works	199,915	91,417	55,004	346,336
Culture and recreation	51,215	-	23,477	74,692
Other governmental functions	53,005	-	-	53,005
Transfer to district library	-	-	31,666	31,666
Debt service				
Principal	-	-	30,000	30,000
Interest	-	-	26,199	26,199
Capital outlay	29,211	-	1,128	30,339
<b>Total expenditures</b>	<u>1,127,009</u>	<u>91,417</u>	<u>168,521</u>	<u>1,386,947</u>
Revenues over (under) expenditures	<u>(9,719)</u>	<u>91,010</u>	<u>5,690</u>	<u>86,981</u>
Other financing sources (uses)				
Transfers in	61,000	-	38,915	99,915
Transfers out	(10,410)	(15,000)	(12,505)	(37,915)
Total other financing sources (uses)	<u>50,590</u>	<u>(15,000)</u>	<u>26,410</u>	<u>62,000</u>
Net changes in fund balances	40,871	76,010	32,100	148,981
<b>Fund balances, beginning of year</b>	<u>622,559</u>	<u>213,759</u>	<u>302,986</u>	<u>1,139,304</u>
<b>Fund balances, end of year</b>	<u>\$ 663,430</u>	<u>\$ 289,769</u>	<u>\$ 335,086</u>	<u>\$ 1,288,285</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

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<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 148,981</b>
Amounts reported for <i>governmental activities</i> in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	29,681
Deduct - depreciation expense	(185,161)
Deduct - net book value of disposed assets	(42,539)
Certain receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.	
Add - long-term receivables	3,880
Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Add - principal payments on debt	30,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct - increase in compensated absences	(7,005)
Deduct - increase in net pension liability	(32,831)
Add - increase in deferred outflows	2,224
Add - decrease in accrued interest	376
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds are reported with governmental activities.	
Deduct - loss from governmental activities in the internal service fund	<u>(28,629)</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ (81,023)</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

**JUNE 30, 2015**

	Enterprise Funds			Governmental Activities
				Internal Service Fund
	Sewer Fund	Water Fund	Total	
<b>Assets</b>				
Current assets				
Cash and pooled investments	\$ 655,883	\$ 415,172	\$ 1,071,055	\$ 44,010
Accounts receivable, net	136,490	54,026	190,516	-
Prepaid items	5,485	4,595	10,080	373
Inventory	5,401	14,959	20,360	-
Total current assets	<u>803,259</u>	<u>488,752</u>	<u>1,292,011</u>	<u>44,383</u>
Long-term assets				
Restricted cash and pooled investments	238,592	130,511	369,103	-
Capital assets:				
Land	30,305	-	30,305	-
Being depreciated, net	<u>10,732,049</u>	<u>2,290,988</u>	<u>13,023,037</u>	<u>169,260</u>
Total long-term assets	<u>11,000,946</u>	<u>2,421,499</u>	<u>13,422,445</u>	<u>169,260</u>
<b>Total assets</b>	<u>11,804,205</u>	<u>2,910,251</u>	<u>14,714,456</u>	<u>213,643</u>
<b>Deferred outflows of resources</b>				
Pension contributions and deficit investment return	<u>28,200</u>	<u>17,752</u>	<u>45,952</u>	<u>2,987</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	30,416	15,301	45,717	2,521
Accrued liabilities	28,530	12,861	41,391	851
Unearned revenue	385	-	385	-
Current portion of compensated absences	416	4,677	5,093	1,282
Current portion of long-term debt	<u>103,000</u>	<u>82,000</u>	<u>185,000</u>	<u>20,000</u>
Total current liabilities	<u>162,747</u>	<u>114,839</u>	<u>277,586</u>	<u>24,654</u>
Long-term liabilities				
Compensated absences	39,394	14,233	53,627	4,375
Net pension liability	339,144	213,463	552,607	35,911
Bonds payable, net of current portion	<u>2,349,000</u>	<u>1,338,091</u>	<u>3,687,091</u>	<u>-</u>
Total long-term liabilities	<u>2,727,538</u>	<u>1,565,787</u>	<u>4,293,325</u>	<u>40,286</u>
<b>Total liabilities</b>	<u>2,890,285</u>	<u>1,680,626</u>	<u>4,570,911</u>	<u>64,940</u>
<b>Net position</b>				
Net investment in capital assets	8,310,354	870,897	9,181,251	149,260
Restricted for debt service	238,592	130,511	369,103	-
Unrestricted	<u>393,174</u>	<u>245,969</u>	<u>639,143</u>	<u>2,430</u>
<b>Total net position</b>	<u>\$ 8,942,120</u>	<u>\$ 1,247,377</u>	<u>\$ 10,189,497</u>	<u>\$ 151,690</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Fund
<b>Operating revenue</b>				
Charges for services	\$ 1,155,983	\$ 457,384	\$ 1,613,367	\$ 111,041
Other	18,158	11,752	29,910	5,006
<b>Total operating revenue</b>	<u>1,174,141</u>	<u>469,136</u>	<u>1,643,277</u>	<u>116,047</u>
<b>Operating expense</b>				
Personnel services	348,260	149,029	497,289	29,405
Contractual services	138,516	42,431	180,947	12,478
Materials and supplies	62,551	11,603	74,154	23,818
Utilities	271,057	40,869	311,926	7,633
Repairs and maintenance	49,341	12,205	61,546	20,715
Equipment rentals	3,439	18,045	21,484	-
Depreciation	444,064	98,066	542,130	50,807
Miscellaneous	9,325	2,866	12,191	-
<b>Total operating expense</b>	<u>1,326,553</u>	<u>375,114</u>	<u>1,701,667</u>	<u>144,856</u>
Operating income (loss)	<u>(152,412)</u>	<u>94,022</u>	<u>(58,390)</u>	<u>(28,809)</u>
Non-operating revenue (expense)				
Gain on sale of capital assets	1,428	-	1,428	255
Interest income	5,914	5,149	11,063	383
Interest expense	(62,722)	(30,236)	(92,958)	(458)
Total non-operating revenue (expense)	<u>(55,380)</u>	<u>(25,087)</u>	<u>(80,467)</u>	<u>180</u>
Income (loss) before transfers	<u>(207,792)</u>	<u>68,935</u>	<u>(138,857)</u>	<u>(28,629)</u>
Transfers				
Transfers in	25,000	-	25,000	-
Transfers out	(41,000)	(46,000)	(87,000)	-
Total transfers	<u>(16,000)</u>	<u>(46,000)</u>	<u>(62,000)</u>	<u>-</u>
Changes in net position	<u>(223,792)</u>	<u>22,935</u>	<u>(200,857)</u>	<u>(28,629)</u>
<b>Net position, beginning of year, as restated</b>	<u>9,165,912</u>	<u>1,224,442</u>	<u>10,390,354</u>	<u>180,319</u>
<b>Net position, end of year</b>	<u>\$ 8,942,120</u>	<u>\$ 1,247,377</u>	<u>\$ 10,189,497</u>	<u>\$ 151,690</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Fund
<b>Cash flows from operating activities</b>				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 116,047
Receipts from customers and users	1,160,432	470,966	1,631,398	-
Payments to employees	(332,347)	(139,329)	(471,676)	(27,367)
Payments to suppliers	(538,463)	(137,160)	(675,623)	(65,163)
<b>Net cash provided by (used in) operating activities</b>	<u>289,622</u>	<u>194,477</u>	<u>484,099</u>	<u>23,517</u>
<b>Cash flows from non-capital financing activities</b>				
Transfers in	25,000	-	25,000	-
Transfers out	(41,000)	(46,000)	(87,000)	-
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(16,000)</u>	<u>(46,000)</u>	<u>(62,000)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>				
Interest expense	(63,468)	(31,310)	(94,778)	(779)
Principal payments on bonds and notes	(102,000)	(82,000)	(184,000)	(20,000)
Proceeds from sale of capital assets	8,775	-	8,775	255
Acquisitions of capital assets	(61,033)	(3,375)	(64,408)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(217,726)</u>	<u>(116,685)</u>	<u>(334,411)</u>	<u>(20,524)</u>
<b>Cash flows from investing activities</b>				
Interest income	5,914	5,149	11,063	383
<b>Net cash provided by (used in) investing activities</b>	<u>5,914</u>	<u>5,149</u>	<u>11,063</u>	<u>383</u>
Net increase (decrease) in cash and pooled investments	61,810	36,941	98,751	3,376
<b>Cash and pooled investments, beginning of year</b>	<u>832,665</u>	<u>508,742</u>	<u>1,341,407</u>	<u>40,634</u>
<b>Cash and pooled investments, end of year</b>	<u>\$ 894,475</u>	<u>\$ 545,683</u>	<u>\$ 1,440,158</u>	<u>\$ 44,010</u>
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ (152,412)	\$ 94,022	\$ (58,390)	\$ (28,809)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	444,064	98,066	542,130	50,807
Deferred outflows of resources	(10,501)	(6,612)	(17,113)	(1,113)
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	(13,994)	1,830	(12,164)	-
Prepaid items	(1,219)	(2,078)	(3,297)	(102)
Inventory	382	842	1,224	-
Accounts payable	(3,397)	(7,905)	(11,302)	(417)
Accrued liabilities	1,040	1,061	2,101	429
Compensated absences	4,962	2,401	7,363	559
Unearned revenue	285	-	285	-
Net pension liability	20,412	12,850	33,262	2,163
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 289,622</u>	<u>\$ 194,477</u>	<u>\$ 484,099</u>	<u>\$ 23,517</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**AGENCY FUNDS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**JUNE 30, 2015**

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	<b>Agency Funds</b>
<b>Assets</b>	
Cash and pooled investments	\$ <u>11,008</u>
<b>Total assets</b>	\$ <u>11,008</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,020
Due to other governments	1,184
Deposits held for others	<u>8,804</u>
<b>Total liabilities</b>	\$ <u>11,008</u>

The accompanying notes are an integral part of these financial statements.



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# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reed City, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

#### ***Reporting Entity***

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

#### ***Discretely Presented Component Units***

The component unit columns in the basic financial statements include the financial data of the Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority. These entities are reported in separate columns to emphasize that they are legally separate from the City. The members of the governing boards of these Authorities are appointed by the City Council. The budgets of these Authorities must be approved by the City Council, and the City has the ability to significantly influence their operations. Financial statements are not separately issued for the component units.

Effective April 1, 2014, the City library became a District Library pursuant to the District Library Establishment Act, Act No. 24 of the Public Acts of 1989, as amended. As part of the agreement, certain assets and liabilities were transferred to the Reed City Area District Library as of that date with other remaining assets transferred subsequent to that date.

#### ***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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are 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.

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

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, licenses, 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 and available only when cash is received by the City.

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 enterprise fund are charges for services. The principal operating revenues of the City's internal service fund is charges to City departments for shared costs and equipment utilization. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal service fund includes 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.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the receipt and expenditure of fuel and weight taxes, distributed by the State of Michigan, that are restricted for use on major streets by Act 51.

The City reports the following major proprietary fund:

The *Sewer and Water Enterprise Funds* are used to account for the operations of the City's sewer and water services. The City provides these services to most of its residents on a user charge basis.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

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Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* are used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs of governmental funds.

The *Capital Projects Funds* account for the accumulation and disbursement of resources for the construction of specific capital projects within the City.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Internal Service Fund* is used to account for shared services and vehicle and equipment purchases and usage provided to the City departments and funds on a cost reimbursement basis.

The *Agency Funds* are used to account for the collection and disbursement of property taxes that are collected on behalf of outside governments, payroll activities for the City, and funds held on behalf of outside organizations.

#### ***Budgets and Budgetary Accounting***

Comparisons to budget are presented for general and special revenue funds. General and special revenue funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year-end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revision that alters the total expenditures of any activity must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Thus the legal level of budgetary control is at the activity level. Supplemental appropriations were necessary during the year.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### ***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal of these balances at any time similar to a demand deposit account.

### ***Investments***

Investments are stated at fair value at the balance sheet date.

State statutes and City policy authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

### ***Restricted Assets***

Certain resources set aside for repayment of bonds and to meet bond covenants are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

### ***Receivables***

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial to the financial statements.

### ***Due to and Due from Other Funds***

Interfund receivables and payables are short term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### ***Inventories***

Inventory consisting of materials and supplies is stated at the lower of cost, determined by the moving average method, or market. Inventory of system components is stated at cost utilizing the last-in first-out (LIFO) method.

### ***Prepaid Items***

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

### ***Capital Assets***

Capital assets, which include land, construction in progress, buildings and equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government 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 valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-40
Buildings and improvements	10-50
Machinery and equipment	5-15
Infrastructure	30-40

### ***Unearned Revenue***

Funds report *unearned revenue* in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the funds were as follows:

<b>Governmental funds</b>	
Unearned grant funds	\$15,003
Unearned rental fees	1,735
<b>Proprietary funds</b>	
Unearned rental fees	385

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### ***Long-Term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as an other financing use. Issuance costs are reported as expenditures.

### ***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has items that qualify for reporting in this category related to the net pension liability which is discussed in note 6.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: payments received on outstanding loans receivable through small business loan programs. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### ***Compensated Absences***

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation and sick time benefits under formulas and conditions specified in the contracts. Accumulated vacation and sick time of governmental funds is recorded on the statement of net position and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources.

### ***Pensions***

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 Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. 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.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### **Property Taxes**

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other taxing units within the City limits. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

### **Fund Equity**

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned - the related assets can only be spent for a specific purpose identified by management as authorized by the governing board.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

Fund Balance can only be committed by resolution of the City Council. The City Council has delegated the authority to assign fund balance to the Finance Director/Treasurer.

### **Net Position and Fund Balance Flow Assumptions**

Sometimes the government 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/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resources as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### **Grants and Other Intergovernmental Revenues**

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.



# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

#### **Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

#### **2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended June 30, 2015, the City incurred the following expenditures which were in excess of the amounts appropriated:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
<b>Library Fund</b>			
Transfer to district library	30,970	31,666	(696)

#### **3. DEFICIT NET POSITION**

At June 30, 2015, the City reported a deficit unrestricted net position in its governmental activities of \$349,574.

#### **4. CASH AND INVESTMENTS**

The captions on the financial statements relating to cash and pooled investments are as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Total</u>
Cash and pooled investments	\$1,244,071	\$1,071,055	\$11,008	\$370,920	\$2,697,054
Restricted cash and pooled investments	-	369,103	-	-	369,103
<b>Total</b>	<b>\$1,244,071</b>	<b>\$1,440,158</b>	<b>\$11,008</b>	<b>\$370,920</b>	<b>\$3,066,157</b>

Cash and pooled investments captions consist of the following at June 30, 2015:

Checking and savings accounts	\$1,539,824
Petty cash	300
Certificates of deposit	<u>1,526,033</u>
<b>Total</b>	<b><u>\$3,066,157</u></b>

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$2,521,235 of the City's bank balance of \$3,271,235 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### 5. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2015 are as follows:

<u>Transfers out</u>	Transfers in			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Fund</u>	
General fund	\$ -	\$ 10,410	\$ -	\$ 10,410
Major street fund	-	15,000	-	15,000
Nonmajor governmental fund	1,000	11,505	-	12,505
Sewer fund	40,000	1,000	-	41,000
Water fund	20,000	1,000	25,000	46,000
<b>Total</b>	<b>\$61,000</b>	<b>\$38,915</b>	<b>\$25,000</b>	<b>\$124,915</b>

The DDA General Fund transferred \$138,250 and \$75,000 to the DDA debt service and DDA capital projects funds respectively.

Transfers are used to (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2015**

### 6. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2015</b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 93,104	\$ -	\$ -	\$ 93,104
<b>Capital assets, being depreciated</b>				
Land improvements	148,029	-	-	148,029
Buildings and improvements	3,031,196	5,000	104,446	2,931,750
Machinery and equipment	2,595,357	24,681	265,194	2,354,844
Infrastructure	968,720	-	-	968,720
Total capital assets, being depreciated	6,743,302	29,681	369,640	6,403,343
Less accumulated depreciation for				
Land improvements	97,257	5,909	-	103,166
Buildings and improvements	548,483	53,507	62,067	539,923
Machinery and equipment	1,614,195	139,300	265,034	1,488,461
Infrastructure	309,252	37,252	-	346,504
Total accumulated depreciation	2,569,187	235,968	327,101	2,478,054
<b>Net capital assets, being depreciated</b>	<b>4,174,115</b>	<b>(206,287)</b>	<b>42,539</b>	<b>3,925,289</b>
<b>Governmental Activities capital assets, net</b>	<b>\$4,267,219</b>	<b>\$(206,287)</b>	<b>\$ 42,539</b>	<b>\$4,018,393</b>
<b>Business-type Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 30,305	\$ -	\$ -	\$ 30,305
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	30,305	-	-	30,305
<b>Capital assets being depreciated</b>				
Land improvements	70,031	-	-	70,031
Buildings	61,504	-	-	61,504
Equipment	468,668	-	28,447	440,221
Water system	3,682,741	3,375	2,788	3,683,328
Sewer system	16,723,723	61,033	22,809	16,761,947
Total capital assets, being depreciated	21,006,667	64,408	54,044	21,017,031
Less accumulated depreciation for				
Land improvements	33,448	1,750	-	35,199
Buildings	33,295	1,006	-	34,300
Equipment	318,543	19,315	26,814	311,044
Water system	1,332,823	95,423	2,788	1,425,458
Sewer system	5,780,450	424,636	17,093	6,187,993
Total accumulated depreciation	7,498,559	542,130	46,695	7,993,994
<b>Net capital assets, being depreciated</b>	<b>13,508,108</b>	<b>(477,722)</b>	<b>7,349</b>	<b>13,023,037</b>
<b>Business-type Activities capital assets, net</b>	<b>\$13,538,413</b>	<b>\$(477,722)</b>	<b>\$7,349</b>	<b>\$13,053,342</b>

**CITY OF REED CITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
<b>Component Unit – Downtown Development Authority</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$22,733	\$ -	\$ -	\$22,733
<b>Capital assets being depreciated</b>				
Buildings	7,224	-	-	7,224
Equipment	10,775	-	-	10,775
Signs	86,897	-	-	86,897
Total capital assets, being depreciated	104,896	-	-	104,896
Less accumulated depreciation for				
Buildings	4,875	722	-	5,597
Equipment	629	629	-	1,258
Signs	11,587	8,690	-	20,277
Total accumulated depreciation	17,091	10,041	-	27,132
<b>Net capital assets, being depreciated</b>	<b>87,805</b>	<b>(10,041)</b>	<b>-</b>	<b>77,764</b>
<b>Component Unit capital assets, net</b>	<b>\$110,538</b>	<b>\$(10,041)</b>	<b>\$ -</b>	<b>\$100,497</b>

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

<b>Governmental Activities</b>	
General government	\$ 5,795
Public safety	87,992
Recreation and culture	73,801
Public works	17,573
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	50,807
<b>Total depreciation expense - governmental activities</b>	<b>\$235,968</b>
 <b>Business-type Activities</b>	
Wastewater	\$444,064
Water	98,066
<b>Total depreciation expense - business- type activities</b>	<b>\$542,130</b>

**7. PENSION PLANS**

***MERS Defined Benefit Plan***

***Plan Description***

The City participates in the Municipal Employees Retirement System (MERS) of Michigan. 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 accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

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#### **Benefits Provided**

Benefits provided include a multiplier of 2.00 to 2.25 times final average compensation with a vesting period of 10 years. Normal retirement age is 60 with early retirement at 55 with 15 or 25 years of service. Benefits are calculated using final average compensation of 5 years.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2014):

Active plan members	18
Inactive employees entitled but not yet receiving benefits	10
Inactive employees or beneficiaries currently receiving benefits	<u>24</u>
Total	<u><u>52</u></u>

#### **Contributions**

The City is required to contribute at an actuarially determined rate, which for the current year was 8.67% of annual covered payroll depending on position and classification. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

#### **Net Pension Liability**

The employer's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)

Investment rate of return: 8.25%, net of investment expense, including inflation

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the valuation were based on the results of 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.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate. The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and 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.

#### Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balance at 12/31/13	\$5,730,521	\$3,855,630	\$1,874,891
Changes for the Year:			
Service cost	101,019	-	101,019
Interest	464,779	-	464,779
Change in benefits	-	-	-
Differences between expected and actual experience	-	-	-
Change in assumptions	-	-	-
Contributions: employer	-	212,231	(212,231)
Contributions: employee	-	-	-
Net investment Income	-	242,394	(242,394)
Benefit payments, including refunds	(294,712)	(294,712)	-
Administrative expense	-	(8,904)	8,904
Other changes	-	-	-
Net changes	271,086	151,009	120,077
Balance at 12/31/14	<u>\$6,001,607</u>	<u>\$4,006,639</u>	1,994,968
Amount applicable to Reed City Housing Commission			<u>359,095</u>
City net pension liability			<u>\$1,635,873</u>

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

#### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease	Current Discount rate	1 % Increase
Total Pension Liability	\$6,061,623	\$6,001,607	\$5,941,591
Fiduciary Net Position	4,006,639	4,006,639	4,006,639
Net Pension Liability	<u>\$2,054,984</u>	<u>\$1,994,968</u>	<u>\$1,934,952</u>

#### Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2015 the employer recognized pension expense of \$259,269. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences in experience	\$ -
Differences in assumptions	-
Excess (deficit) investment returns	47,187
Contributions subsequent to the measurement date	88,842
Total	<u>\$136,029</u>

#### 8. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
\$230,000 Equipment installment note due in annual installments of \$11,000 to \$20,000 through February 2022; plus interest at 4.13%.	\$140,000	\$ -	\$15,000	\$125,000	\$16,000
\$575,000 Fire Station General Obligation Bonds of 2002 due in annual installments of \$12,000 to \$37,000 through May 2032; plus interest at 4.625%.	439,000	-	15,000	424,000	16,000
\$100,000 Equipment installment notes due in annual installments of \$20,000 through September 2015; plus interest at 1.95%	40,000	-	20,000	20,000	20,000
Total debt	<b>619,000</b>	-	<b>50,000</b>	<b>569,000</b>	<b>52,000</b>
Compensated absences	140,983	13,830	43,978	110,835	7,548
<b>Total Governmental Activities</b>	<b><u>\$759,983</u></b>	<b><u>\$13,830</u></b>	<b><u>\$93,978</u></b>	<b><u>\$679,835</u></b>	<b><u>\$59,548</u></b>

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
<b>Business-type Activities</b>					
\$1,105,000 Water Supply / Wastewater System Revenue Bonds of 1998 due in annual installments of \$50,000 to \$85,000 through November 2019; plus interest at 4.7% to 5.2%.	\$ 440,000	\$ -	\$ 65,000	\$ 375,000	\$ 65,000
\$1,605,000 Drinking Water Revolving Fund Bonds of 2006 due in annual installments of \$65,000 to \$95,000 through April 2027; plus interest at 2.13%.	1,015,091	-	70,000	945,091	70,000
Wastewater Treatment System Revenue Bonds USDA, Series 2012. Payments due in annual installments of \$36,000 to \$80,000 through April 1, 2052; interest at 2.0%	2,114,000	-	37,000	2,077,000	38,000
Water Supply System Revenue Bonds USDA, Series 2012. Payments due in annual installments of \$12,000 to \$23,000 through April 1, 2042; interest at 2.0%	487,000	-	12,000	475,000	12,000
Total debt	<b>4,056,091</b>	-	<b>184,000</b>	<b>3,872,091</b>	<b>185,000</b>
Compensated absences	51,357	7,363	-	58,720	5,093
<b>Total Business-type Activities</b>	<b>\$4,107,448</b>	<b>\$7,363</b>	<b>\$184,000</b>	<b>\$3,930,811</b>	<b>\$190,093</b>
<b>Component Unit – Downtown Development Authority</b>					
\$1,300,000 Downtown Development Revenue Bonds of 1998 due in annual installments of \$75,000 to \$250,000 through 2017; plus interest at 5.75%.	\$475,000	\$ -	\$110,000	\$365,000	\$115,000
\$600,000 land contract due in annual installments of \$120,000 through August 2014; including interest at 4.00%.	120,000	-	120,000	-	-
<b>Total Long-term Debt – Component Unit</b>	<b>\$595,000</b>	<b>\$ -</b>	<b>\$230,000</b>	<b>\$365,000</b>	<b>\$115,000</b>

Compensated absences of governmental funds are generally liquidated with general fund resources.



# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2015

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2015 are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 52,000	\$ 25,155	\$ 185,000	\$ 88,934	\$115,000	\$ 20,988
2017	34,000	23,366	197,000	82,936	250,000	14,375
2018	35,000	21,879	203,000	76,532	-	-
2019	37,000	20,344	208,000	69,848	-	-
2020	38,000	18,723	220,000	62,904	-	-
2021-2025	154,000	69,496	699,000	260,950	-	-
2026-2030	148,000	37,647	489,091	192,050	-	-
2031-2035	71,000	4,996	364,000	152,900	-	-
2036-2040	-	-	408,000	114,720	-	-
2041-2045	-	-	376,000	73,760	-	-
2046-2050	-	-	365,000	38,020	-	-
2051-2055	-	-	158,000	4,760	-	-
<b>Total</b>	<b>\$569,000</b>	<b>\$221,606</b>	<b>\$3,872,091</b>	<b>\$1,218,314</b>	<b>\$365,000</b>	<b>\$35,363</b>

#### 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. The City carries commercial insurance to cover all these risks. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

#### 10. CONCENTRATIONS

The City has a significant economic dependence on a local corporation that is a major employer, taxpayer, and user of water and sewer services. The percentages of taxes and utilities paid by the corporation is as follows:

	<u>Amount</u>	<u>Percent of Total</u>
Property taxes	\$ 219,193	31%
Water and sewer charges	1,005,662	62%
Water and sewer accounts receivable	96,956	51%

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### 11. CONTINGENT LIABILITIES

#### Wastewater Treatment Plant

The City owns a parcel of land that is used for its wastewater treatment plant. The parcel was previously owned by Koppers Company which operated a creosote plant treating poles and railroad ties. The Department of Natural Resources claims that the City may be a possible responsible party because it presently owns the property and must be involved in the study and remedial action. Creosote leaking into a river is being purged and treated in the City's wastewater treatment plant. Total costs of the clean-up of the property could be substantial. The City of Reed City and Beazer East, Inc. (the successor to Koppers) have entered into an agreement regarding certain cost sharing which requires, among other things, that the City is required to treat water from the purge wells. There has not been a determination of responsible parties, the cost of the project, or whether the costs will be covered by insurance. Based on these factors, no provision for the contingency is included in the financial statements.

The City has also been notified by the Department of Environmental Quality of certain violations at its wastewater treatment plant. The potential cost to the City as a result of the violations is unknown.

#### Landfill

From September 17, 1968 until March 8, 1985, the City operated a landfill, which is now privately owned and operated. The City, Richmond Sanitary Landfill, Inc. and the Department of Natural Resources entered into a Consent Agreement which outlines certain obligations of the parties regarding the capping of the landfill. The majority of the City's requirements under the Consent Agreement have been completed. It is impossible to determine the financial obligation that the City of Reed City may ultimately have regarding the landfill until further studies and tests are done. If there are contamination problems at the landfill and the City is held liable, the cost to the City could be significant.

#### Property Taxes

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

#### Grants

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs maybe questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of the City.

# CITY OF REED CITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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### 12. PRIOR PERIOD ADJUSTMENT

Beginning net position of the City was decreased to record the net pension liability in accordance with the implementation of Governmental Accounting Standards Board Statement No. 68 as follows:

<u>Opinion Unit</u>	<u>Amount</u>
Governmental Activities	\$1,018,066
Business-type Activities	519,344
Sewer Fund	318,731
Water Fund	200,613
Equipment Pool Fund	33,748

Beginning net position of the City was increased to record deferred outflows in accordance with the implementation of Governmental Accounting Standards Board Statement No. 71 as follows:

<u>Opinion Unit</u>	<u>Amount</u>
Governmental Activities	\$56,531
Business-type Activities	28,838
Sewer Fund	17,698
Water Fund	11,140
Equipment Pool Fund	1,874

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF REED CITY**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 477,520	\$ 477,520	\$ 477,320	\$ (200)
Intergovernmental revenues				
Federal	42,000	42,000	39,896	(2,104)
State	238,223	238,223	236,948	(1,275)
Local	89,250	89,250	79,250	(10,000)
Licenses and permits	28,700	30,700	31,900	1,200
Charges for services	132,750	135,676	137,631	1,955
Fines	21,850	21,850	15,548	(6,302)
Donations	2,100	2,100	8,830	6,730
Interest and other	92,515	98,815	89,967	(8,848)
<b>Total revenues</b>	<u>1,124,908</u>	<u>1,136,134</u>	<u>1,117,290</u>	<u>(18,844)</u>
<b>Expenditures</b>				
Current				
City Council	25,786	71,936	66,241	5,695
General government	271,692	272,208	251,514	20,694
Public safety	532,835	525,835	475,908	49,927
Public works	217,170	222,105	199,915	22,190
Culture and recreation	51,350	51,350	51,215	135
Other governmental functions	55,375	54,000	53,005	995
Capital outlay	34,950	37,810	29,211	8,599
<b>Total expenditures</b>	<u>1,189,158</u>	<u>1,235,244</u>	<u>1,127,009</u>	<u>108,235</u>
<b>Revenues over (under) expenditures</b>	<u>(64,250)</u>	<u>(99,110)</u>	<u>(9,719)</u>	<u>89,391</u>
Other financing sources (uses)				
Transfers in	61,000	61,000	61,000	-
Transfers out	(10,410)	(10,410)	(10,410)	-
<b>Total other financing sources (uses)</b>	<u>50,590</u>	<u>50,590</u>	<u>50,590</u>	<u>-</u>
<b>Net changes in fund balance</b>	<u>(13,660)</u>	<u>(48,520)</u>	<u>40,871</u>	<u>89,391</u>
<b>Fund balance, beginning of year</b>	<u>622,559</u>	<u>622,559</u>	<u>622,559</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 608,899</u>	<u>\$ 574,039</u>	<u>\$ 663,430</u>	<u>\$ 89,391</u>

**CITY OF REED CITY**  
**MAJOR STREETS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 167,857	\$ 169,000	\$ 176,211	\$ 7,211
Local	-	-	4,280	4,280
Interest and other	600	600	1,936	1,336
<b>Total revenues</b>	<u>168,457</u>	<u>169,600</u>	<u>182,427</u>	<u>12,827</u>
<b>Expenditures</b>				
Current				
Public works	134,457	173,500	91,417	82,083
Capital outlay	9,000	9,000	-	9,000
<b>Total expenditures</b>	<u>143,457</u>	<u>182,500</u>	<u>91,417</u>	<u>91,083</u>
Revenues over (under) expenditures	<u>25,000</u>	<u>(12,900)</u>	<u>91,010</u>	<u>103,910</u>
Other financing sources (uses)				
Transfers out	(25,000)	(25,000)	(15,000)	10,000
Net changes in fund balance	-	(37,900)	76,010	113,910
<b>Fund balance, beginning of year</b>	<u>213,759</u>	<u>213,759</u>	<u>213,759</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 213,759</u>	<u>\$ 175,859</u>	<u>\$ 289,769</u>	<u>\$ 113,910</u>

# CITY OF REED CITY

## **DEFINED BENEFIT PENSION PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION LIABILITY AND RELATED RATIOS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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	<u>2014</u>
<b>Actuarially determined contributions</b>	
Service cost	\$ 101,019
Interest	464,779
Benefit payments including employee refunds	<u>(294,712)</u>
<b>Net change in total pension liability</b>	<u>271,086</u>
<b>Total pension liability, beginning of year</b>	<u>5,730,521</u>
<b>Total pension liability, ending of year</b>	<u>\$ 6,001,607</u>
<b>Plan Fiduciary Net Position</b>	
Contributions-employer	\$ 212,231
Net Investment income	242,394
Benefit payments including employee refunds	(294,712)
Administrative expense	<u>(8,904)</u>
<b>Net change in plan fiduciary net position</b>	<u>151,009</u>
<b>Plan fiduciary net position, beginning of year</b>	<u>3,855,630</u>
<b>Plan fiduciary net position, ending of year</b>	<u>\$ 4,006,639</u>
<b>Total net pension liability</b>	\$ 1,994,968
<b>Reed City Housing Commission portion</b>	<u>359,092</u>
<b>City net pension liability</b>	<u>\$ 1,635,876</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	66.8%
<b>Covered employee payroll</b>	\$ 1,223,889
<b>Employer's net pension liability as a percentage of covered employee payroll</b>	133.7%

**Notes to schedule:**

Above information is as of the measurement date (December 31) which is not the City's fiscal year.

# CITY OF REED CITY

## **DEFINED BENEFIT PENSION PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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	<u>2015</u>
Actuarially determined contributions	\$ 216,467
Contributions in relation to the actuarially determined contribution	<u>216,467</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 1,223,889
Contributions as a percentage of covered employee payroll	18%

### **Notes to schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.50%
Salary increases	4.50%
Investment rate of return	8.25%
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male 1994 group annuity mortality table



**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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**CITY OF REED CITY**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**

**JUNE 30, 2015**

	Special Revenue				
	<u>Local Streets</u>	<u>Law Enforcement Training</u>	<u>Library</u>	<u>Park Commission</u>	<u>Rural Development Small Business Revolving Loan</u>
<b>Assets</b>					
Cash and pooled investments	\$ 150,478	\$ 3,460	\$ -	\$ 14,266	\$ 29,001
Accounts receivable	-	-	113	-	20,161
Prepaid items	406	-	-	-	-
Due from other governments	19,319	-	-	-	-
<b>Total assets</b>	<u>\$ 170,203</u>	<u>\$ 3,460</u>	<u>\$ 113</u>	<u>\$ 14,266</u>	<u>\$ 49,162</u>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 2,378	\$ -	\$ 113	\$ 267	\$ -
Accrued liabilities	270	-	-	-	-
Compensated absences	1,173	-	-	-	-
<b>Total liabilities</b>	<u>3,821</u>	<u>-</u>	<u>113</u>	<u>267</u>	<u>-</u>
<b>Deferred inflows</b>					
Unavailable revenue	-	-	-	-	20,161
<b>Fund balances</b>					
Non-spendable					
Prepays	406	-	-	-	-
Permanent fund nonspendable	-	-	-	-	-
Restricted					
Permanent fund spendable					
Streets	165,976	-	-	-	-
Law enforcement	-	3,460	-	-	-
Parks	-	-	-	13,999	-
Debt service	-	-	-	-	-
Committed					
Revolving loans	-	-	-	-	29,001
Assigned	-	-	-	-	-
<b>Total fund balances</b>	<u>166,382</u>	<u>3,460</u>	<u>-</u>	<u>13,999</u>	<u>29,001</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 170,203</u>	<u>\$ 3,460</u>	<u>\$ 113</u>	<u>\$ 14,266</u>	<u>\$ 49,162</u>

<u>Debt Service</u>		<u>Capital Projects</u>			<u>Permanent</u>		
<u>Fire Truck</u>	<u>Fire Station</u>	<u>Equipment and Replacement</u>	<u>Fire Equipment Replacement</u>	<u>Parks Improvement</u>	<u>Cemetery Perpetual Care</u>		<u>Total</u>
\$ 7,148	\$ 21,286	\$ 20,220	\$ 14,129	\$ 3,626	\$ 55,607	\$	\$ 319,221
-	201	-	-	-	27		20,502
-	-	-	-	-	-		406
-	-	-	-	-	-		19,319
<u>\$ 7,148</u>	<u>\$ 21,487</u>	<u>\$ 20,220</u>	<u>\$ 14,129</u>	<u>\$ 3,626</u>	<u>\$ 55,634</u>		<u>\$ 359,448</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	\$ 2,758
-	-	-	-	-	-		270
-	-	-	-	-	-		1,173
-	-	-	-	-	-		4,201
-	-	-	-	-	-		20,161
-	-	-	-	-	-		406
-	-	-	-	-	33,252		33,252
-	-	-	-	-	22,382		22,382
-	-	-	-	-	-		165,976
-	-	-	-	-	-		3,460
-	-	-	-	-	-		13,999
-	21,487	-	-	-	-		21,487
-	-	-	-	-	-		29,001
<u>7,148</u>	<u>-</u>	<u>20,220</u>	<u>14,129</u>	<u>3,626</u>	<u>-</u>		<u>45,123</u>
<u>7,148</u>	<u>21,487</u>	<u>20,220</u>	<u>14,129</u>	<u>3,626</u>	<u>55,634</u>		<u>335,086</u>
<u>\$ 7,148</u>	<u>\$ 21,487</u>	<u>\$ 20,220</u>	<u>\$ 14,129</u>	<u>\$ 3,626</u>	<u>\$ 55,634</u>		<u>\$ 359,448</u>

**CITY OF REED CITY**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Special Revenue				
	<u>Local Streets</u>	<u>Law Enforcement Training</u>	<u>Library</u>	<u>Park Commission</u>	<u>Rural Development Small Business Revolving Loan</u>
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ 31,666	\$ -	\$ -
Intergovernmental revenues					
State	72,743	781	-	-	-
Local	-	-	-	10,000	-
Donations	-	-	-	1,000	-
Interest and other	1,044	31	-	120	7,670
<b>Total revenues</b>	<u>73,787</u>	<u>812</u>	<u>31,666</u>	<u>11,120</u>	<u>7,670</u>
<b>Expenditures</b>					
Current					
General government	-	-	-	-	-
Public works	52,118	-	-	-	-
Culture and recreation	-	-	-	13,477	10,000
Transfer to district library	-	-	31,666	-	-
Debt Service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	<u>52,118</u>	<u>-</u>	<u>31,666</u>	<u>13,477</u>	<u>10,000</u>
Revenues over (under) expenditures	<u>21,669</u>	<u>812</u>	<u>-</u>	<u>(2,357)</u>	<u>(2,330)</u>
Other financing sources (uses)					
Transfers in	15,000	-	-	-	-
Transfers out	-	(1,000)	-	-	-
Total other financing sources (uses)	<u>15,000</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	36,669	(188)	-	(2,357)	(2,330)
<b>Fund balances, beginning of year</b>	<u>129,713</u>	<u>3,648</u>	<u>-</u>	<u>16,356</u>	<u>31,331</u>
<b>Fund balances, end of year</b>	<u>\$ 166,382</u>	<u>\$ 3,460</u>	<u>\$ -</u>	<u>\$ 13,999</u>	<u>\$ 29,001</u>

<u>Debt Service</u>		<u>Capital Projects</u>			<u>Permanent</u>		
<u>Fire Truck</u>	<u>Fire Station</u>	<u>Equipment and Replacement</u>	<u>Fire Equipment Replacement</u>	<u>Parks Improvement</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>	
\$ -	\$ 31,190	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62,856
-	-	-	-	-	-	-	73,524
-	-	-	17,000	-	-	-	27,000
-	-	-	-	-	-	-	1,000
<u>6</u>	<u>23</u>	<u>172</u>	<u>121</u>	<u>27</u>	<u>617</u>	<u>9,831</u>	
<u>6</u>	<u>31,213</u>	<u>172</u>	<u>17,121</u>	<u>27</u>	<u>617</u>	<u>174,211</u>	
-	-	832	-	-	215	1,047	
-	-	2,886	-	-	-	55,004	
-	-	-	-	-	-	23,477	
-	-	-	-	-	-	31,666	
15,000	15,000	-	-	-	-	30,000	
5,865	20,334	-	-	-	-	26,199	
-	-	1,128	-	-	-	1,128	
<u>20,865</u>	<u>35,334</u>	<u>4,846</u>	<u>-</u>	<u>-</u>	<u>215</u>	<u>168,521</u>	
<u>(20,859)</u>	<u>(4,121)</u>	<u>(4,674)</u>	<u>17,121</u>	<u>27</u>	<u>402</u>	<u>5,690</u>	
20,915	-	3,000	-	-	-	38,915	
-	-	-	(11,505)	-	-	(12,505)	
<u>20,915</u>	<u>-</u>	<u>3,000</u>	<u>(11,505)</u>	<u>-</u>	<u>-</u>	<u>26,410</u>	
56	(4,121)	(1,674)	5,616	27	402	32,100	
<u>7,092</u>	<u>25,608</u>	<u>21,894</u>	<u>8,513</u>	<u>3,599</u>	<u>55,232</u>	<u>302,986</u>	
<u>\$ 7,148</u>	<u>\$ 21,487</u>	<u>\$ 20,220</u>	<u>\$ 14,129</u>	<u>\$ 3,626</u>	<u>\$ 55,634</u>	<u>\$ 335,086</u>	

**CITY OF REED CITY**  
**LOCAL STREETS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 55,000	\$ 55,000	\$ 72,743	\$ 17,743
Interest and other	200	200	1,044	844
<b>Total revenues</b>	55,200	55,200	73,787	18,587
<b>Expenditures</b>				
Current				
Public works	80,200	80,200	52,118	28,082
Revenues over (under) expenditures	(25,000)	(25,000)	21,669	46,669
Other financing sources (uses)				
Transfers in	25,000	25,000	15,000	(10,000)
Net changes in fund balance	-	-	36,669	36,669
<b>Fund balance, beginning of year</b>	129,713	129,713	129,713	-
<b>Fund balance, end of year</b>	<u>\$ 129,713</u>	<u>\$ 129,713</u>	<u>\$ 166,382</u>	<u>\$ 36,669</u>

**CITY OF REED CITY**

**LAW ENFORCEMENT TRAINING  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2015**

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	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 1,000	\$ 1,000	\$ 781	\$ (219)
Interest and other	-	-	31	31
	<u>1,000</u>	<u>1,000</u>	<u>812</u>	<u>(188)</u>
<b>Total revenues</b>				
Other financing sources (uses)				
Transfers out	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>
Net changes in fund balance	-	-	(188)	(188)
<b>Fund balance, beginning of year</b>	<u>3,648</u>	<u>3,648</u>	<u>3,648</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 3,648</u>	<u>\$ 3,648</u>	<u>\$ 3,460</u>	<u>\$ (188)</u>



**CITY OF REED CITY**

**LIBRARY FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2015**

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	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 30,970	\$ 30,970	\$ 31,666	\$ 696
<b>Expenditures</b>				
Current				
Transfer to district library	<u>30,970</u>	<u>30,970</u>	<u>31,666</u>	<u>(696)</u>
Net changes in fund balance	-	-	-	-
<b>Fund balance, beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF REED CITY**  
**PARK COMMISSION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
Local	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Donations	4,410	4,410	1,000	(3,410)
Interest and other	20	20	120	100
	<u>14,430</u>	<u>14,430</u>	<u>11,120</u>	<u>(3,310)</u>
<b>Total revenues</b>	14,430	14,430	11,120	(3,310)
<b>Expenditures</b>				
Current				
Culture and recreation	14,430	14,430	13,477	953
	<u>14,430</u>	<u>14,430</u>	<u>13,477</u>	<u>953</u>
Net changes in fund balance	-	-	(2,357)	(2,357)
<b>Fund balance, beginning of year</b>	<u>16,356</u>	<u>16,356</u>	<u>16,356</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 16,356</u>	<u>\$ 16,356</u>	<u>\$ 13,999</u>	<u>\$ (2,357)</u>

**CITY OF REED CITY**

**RURAL DEVELOPMENT SMALL BUSINESS REVOLVING LOAN  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2015**

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	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Interest and other	\$ 5,530	\$ 5,530	\$ 7,670	\$ 2,140
<b>Expenditures</b>				
Current				
Culture and recreation	<u>5,530</u>	<u>10,300</u>	<u>10,000</u>	<u>300</u>
Net changes in fund balance	-	(4,770)	(2,330)	2,440
<b>Fund balance, beginning of year</b>	<u>31,331</u>	<u>31,331</u>	<u>31,331</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 31,331</u>	<u>\$ 26,561</u>	<u>\$ 29,001</u>	<u>\$ 2,440</u>

**CITY OF REED CITY**  
**AGENCY FUNDS**  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
**JUNE 30, 2015**

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	<u>Tax Collection</u>	<u>Payroll</u>	<u>Rails to Trails</u>	<u>Osceola Foundation</u>	<u>Total</u>
<b>Assets</b>					
Cash and pooled investments	\$ 163	\$ 2,041	\$ 865	\$ 7,939	\$ 11,008
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 1,020	\$ -	\$ -	\$ 1,020
Due to other governments	163	1,021	-	-	1,184
Deposits held for others	-	-	865	7,939	8,804
<b>Total liabilities</b>	<u>\$ 163</u>	<u>\$ 2,041</u>	<u>\$ 865</u>	<u>\$ 7,939</u>	<u>\$ 11,008</u>

**CITY OF REED CITY**

**DOWNTOWN DEVELOPMENT AUTHORITY  
BALANCE SHEET/STATEMENT OF NET POSITION**

**JUNE 30, 2015**

	Governmental Fund Types				Adjustments	Statement of Net Position
	General Fund	Debt Service Fund	Capital Projects Fund	Totals		
<b>Assets</b>						
Cash and pooled investments	\$ 96,338	\$ 131,117	\$ 143,465	\$ 370,920	\$ -	\$ 370,920
Accounts receivable	39,734	87	-	39,821	-	39,821
Capital assets						
Land	-	-	-	-	22,733	22,733
Depreciable, net	-	-	-	-	77,764	77,764
<b>Total assets</b>	<u>\$ 136,072</u>	<u>\$ 131,204</u>	<u>\$ 143,465</u>	<u>\$ 410,741</u>	<u>100,497</u>	<u>511,238</u>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 4,538	\$ -	\$ 2,942	\$ 7,480	-	7,480
Accrued liabilities	-	-	-	-	1,749	1,749
Noncurrent liabilities						
Due within one year	-	-	-	-	115,000	115,000
Due in more than one year	-	-	-	-	250,000	250,000
<b>Total liabilities</b>	<u>4,538</u>	<u>-</u>	<u>2,942</u>	<u>7,480</u>	<u>366,749</u>	<u>374,229</u>
<b>Deferred inflows</b>						
Unavailable revenue	<u>39,389</u>	<u>-</u>	<u>-</u>	<u>39,389</u>	<u>(39,389)</u>	<u>-</u>
<b>Fund balances</b>						
Assigned	-	131,204	140,523	271,727		
Unassigned	<u>92,145</u>	<u>-</u>	<u>-</u>	<u>92,145</u>		
<b>Total fund balances</b>	<u>92,145</u>	<u>131,204</u>	<u>140,523</u>	<u>363,872</u>	<u>(363,872)</u>	<u>-</u>
<b>Total liabilities and fund balances</b>	<u>\$ 136,072</u>	<u>\$ 131,204</u>	<u>\$ 143,465</u>	<u>\$ 410,741</u>		
<b>Net position</b>						
Net investment in capital assets					100,497	100,497
Unrestricted					<u>36,512</u>	<u>36,512</u>
<b>Total net position</b>					<u>\$ 137,009</u>	<u>\$ 137,009</u>
<b>Reconciliation of fund balances to net position</b>						
<b>Fund balances of governmental funds</b>						\$ 363,872
Amounts reported for <i>governmental activities</i> in the statement of net position are different because						
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.						
Add - land						22,733
Add - capital assets (net of accumulated depreciation)						77,764
Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.						
Add - unavailable revenue						39,389
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.						
Deduct - debt payable						(365,000)
Deduct - accrued interest on debt payable						(1,749)
<b>Net position of governmental activities</b>						<u>\$ 137,009</u>

**CITY OF REED CITY**

**DOWNTOWN DEVELOPMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES/STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015**

	Governmental Fund Types					Statement of Activities
	General Fund	Debt Service Fund	Capital Projects	Totals	Adjustments	
<b>Revenues</b>						
Taxes	\$ 457,065	\$ -	\$ -	\$ 457,065	\$ -	\$ 457,065
Interest and other	1,095	568	32,750	34,413	-	34,413
<b>Total revenues</b>	<u>458,160</u>	<u>568</u>	<u>32,750</u>	<u>491,478</u>	<u>-</u>	<u>491,478</u>
<b>Expenditures</b>						
Current						
General government	153,260	-	14,505	167,765	10,041	177,806
Debt service						
Principal	-	110,000	120,000	230,000	(230,000)	-
Interest	-	28,063	4,800	32,863	(4,726)	28,137
<b>Total expenditures</b>	<u>153,260</u>	<u>138,063</u>	<u>139,305</u>	<u>430,628</u>	<u>(224,685)</u>	<u>205,943</u>
Revenues over (under) expenditures	<u>304,900</u>	<u>(137,495)</u>	<u>(106,555)</u>	<u>60,850</u>	<u>(224,685)</u>	<u>285,535</u>
Other financing sources (uses)						
Transfers in	-	138,250	75,000	213,250	-	213,250
Transfers out	(213,250)	-	-	(213,250)	-	(213,250)
Loss on sale of asset	-	-	(720,754)	(720,754)	-	(720,754)
Total other financing sources (uses)	<u>(213,250)</u>	<u>138,250</u>	<u>(645,754)</u>	<u>(720,754)</u>	<u>-</u>	<u>(720,754)</u>
Net changes in fund balances	91,650	755	(752,309)	(659,904)	659,904	-
Change in net position					435,219	(435,219)
<b>Fund balances/net position</b>						
Beginning of year	495	130,449	892,832	1,023,776		572,228
End of year	<u>\$ 92,145</u>	<u>\$ 131,204</u>	<u>\$ 140,523</u>	<u>\$ 363,872</u>		<u>\$ 137,009</u>

**Reconciliation of change in fund balances to change in net position:**

<b>Net change in fund balances of governmental funds</b>	\$ (659,904)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	-
Deduct - depreciation expense	(10,041)
Business loan receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.	
Deduct - business loan receipts	-
Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	
Add - principal payments on debt	230,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add - decrease in accrued interest	4,726
<b>Change in net position of governmental activities</b>	<u>\$ (435,219)</u>

**CITY OF REED CITY**

**BROWNFIELD REDEVELOPMENT AUTHORITY  
BALANCE SHEET**

**JUNE 30, 2015**

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	<b>Governmental Fund Type</b>
	<b>General Fund</b>
<b>Assets</b>	
Cash and pooled investment:	\$ <u>          -</u>
<b>Liabilities and fund balances</b>	
<b>Liabilities</b>	
Accounts payable and accrued liability:	\$ <u>          -</u>
<b>Fund balances</b>	
Unassigned	<u>          -</u>
<b>Total liabilities and fund balances:</b>	\$ <u>          -</u>

**CITY OF REED CITY**

**BROWNFIELD REDEVELOPMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2015**

---

	<b>Governmental Fund Type</b>
	<b>General Fund</b>
<b>Revenues</b>	
Intergovernmental revenue - federal	\$ 12,547
<b>Expenditures</b>	
General government	<u>12,728</u>
Net changes in fund balances	(181)
<b>Fund balances, beginning of year</b>	<u>181</u>
<b>Fund balances, end of year</b>	<u><u>\$ -</u></u>



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## **INTERNAL CONTROL AND COMPLIANCE**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 22, 2015

Honorable Mayor and Members of the City Council  
City of Reed City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 22, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Uredaxold Haefner LLC*



*Vredeveld Haefner LLC*

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September 22, 2015

To the City Council  
City of Reed City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reed City (the City) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 7, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, in 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on previous history and future expectations and the estimate of pension plan obligations is based on an actuarial valuation of the plan. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of concentrations in Note 9 and contingent liabilities in Note 10 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of our audit procedures.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Specializing in services to governmental and nonprofit entities*

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 22, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also noted the following items:

During our inventory audit procedures we noted that the City has approximately 622 tons of road salt on hand which is enough to last approximately three years based on average use over the last several winters. We recommend the City consider monitoring additional road salt purchases until the current reserve is depleted.

### Other Matters

We applied certain limited procedures to the required supplementary information (RSI), as itemized in the table of contents, that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

This information is intended solely for the use of the Board and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Uredewald Haefner LLC*