

**City of Eaton Rapids
Eaton County, Michigan**

FINANCIAL STATEMENTS

June 30, 2014

City of Eaton Rapids

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Eaton Rapids, 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 Eaton Rapids, Michigan, (the City) as of and for the year ended June 30, 2014, 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. 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 Eaton Rapids, as of June 30, 2014, 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, budgetary comparison information, and schedules of funding progress and employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 of Eaton Rapids' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 15, 2014

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

This section of the City of Eaton Rapids annual report presents our discussion and analysis of the City of Eaton Rapids financial performance during the year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which immediately follow this section.

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the City's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2014.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Eaton Rapids financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole, presenting both an aggregate view of the City's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds - the General Fund and the Utility Fund, and other smaller funds collectively as non-major governmental funds.

Government-Wide Financial Statements

One of the most important questions asked about the City of Eaton Rapids is, "As a whole, what is the City's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position (page 1) presents all of the City of Eaton Rapids' assets and liabilities, recording the difference between the two as "net position". Over time, increases or decreases in net position measure whether the City of Eaton Rapids financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City of Eaton Rapids' net position changed during fiscal year 2014. All changes in net position are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods.

Both statements report the following activities:

- **Governmental Activities** - Most of the City of Eaton Rapids basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. This also includes the activities such as the major and local street maintenance, and debt service.
- **Business-type Activities** - These activities operate like private businesses. The City of Eaton Rapids charges fees to recover the cost of the services provided.
- **Discretely Presented Component Units** - Discretely presented component units are legally separate organizations for which the City of Eaton Rapids Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City of Eaton Rapids.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

As stated previously, the government-wide financial statements are full accrual basis statements. However, the governmental funds report on a modified accrual basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources. Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City of Eaton Rapids uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as funds required by bond or grant agreements. Funds are also utilized to track specific operations; these include the internal services fund (e.g. Motor pool) as well as enterprise funds such as the Utility Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The City of Eaton Rapids funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- Governmental Funds - Most of the City of Eaton Rapids basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City of Eaton Rapids programs. Governmental funds include the General Fund, as well as special revenue, debt service, capital projects, and permanent funds.
- Proprietary Funds - Services for which the City of Eaton Rapids charges customers a fee are generally reported in proprietary funds. Proprietary funds use the same accrual basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. Enterprise funds report activities that provide supplies and/or services to the general public. Internal Service funds report activities that provide supplies or service to the City of Eaton Rapids other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 14 of this report.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedule for the General Fund and schedules of funding progress and contributions for the City's pension and other post-employment benefit plans.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for non-major governmental funds. These funds are added together, by fund type, and are presented in a single aggregate column in the basic financial statements.

Summary of Net Position:

The following summarizes the net position as of June 30, 2014 and 2013.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 2,340,750	\$ 2,187,220	\$ 5,188,934	\$ 4,883,068	\$ 7,529,684	\$ 7,070,288
Capital assets, net	6,963,343	7,008,702	13,947,295	14,989,968	20,910,638	21,998,670
Total assets	9,304,093	9,195,922	19,136,229	19,873,036	28,440,322	29,068,958
Liabilities						
Current	389,736	384,012	1,157,287	1,010,190	1,547,023	1,394,202
Noncurrent	3,859,505	3,540,990	10,667,086	11,097,099	14,526,591	14,638,089
Total liabilities	4,249,241	3,925,002	11,824,373	12,107,289	16,073,614	16,032,291
Net Position						
Invested in capital assets - net of related debt	4,603,889	4,704,763	6,076,269	5,080,353	10,680,158	9,785,116
Restricted	1,048,392	1,050,491	698,547	709,456	1,746,939	1,759,947
Unrestricted	(597,429)	(484,334)	537,040	1,975,958	(60,389)	1,491,624
Total net position	\$ 5,054,852	\$ 5,270,920	\$ 7,311,856	\$ 7,765,767	\$ 12,366,708	\$ 13,036,687

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Results of Operations:

For the fiscal year ended June 30, 2014 and 2013, the government-wide results of operations were:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenue:						
Charges for services	\$ 1,107,730	\$ 1,061,614	\$ 10,028,261	\$ 9,592,536	\$ 11,135,991	\$ 10,654,150
Operating grants and contributions	293,129	304,151	-	-	293,129	304,151
Capital grants and contributions	26,215	119,889	-	-	26,215	119,889
General revenues:						
Property taxes	1,000,324	1,015,402	578,230	580,324	1,578,554	1,595,726
State Revenue Sharing	435,428	424,204	-	-	435,428	424,204
Investment earnings	10,019	11,908	11,982	12,573	22,001	24,481
Other	78,479	72,182	209,878	220,861	288,357	293,043
Transfers	360,870	360,870	(360,870)	(360,870)	-	-
Total revenues	3,312,194	3,370,220	10,467,481	10,045,424	13,779,675	13,415,644
Expenses						
General government	686,167	997,803	-	-	686,167	997,803
Public safety	1,481,640	1,441,390	-	-	1,481,640	1,441,390
Public works	881,530	606,383	10,921,392	10,117,310	11,802,922	10,723,693
Community and economic development	217,777	212,579	-	-	217,777	212,579
Health and welfare	10,472	10,472	-	-	10,472	10,472
Recreation and culture	161,820	129,238	-	-	161,820	129,238
Interest on long-term debt	88,856	94,656	-	-	88,856	94,656
Total expenses	3,528,262	3,492,521	10,921,392	10,117,310	14,449,654	13,609,831
Change in net position	(216,068)	(122,301)	(453,911)	(71,886)	(669,979)	(194,187)
Net position, beginning of year	5,270,920	5,393,221	7,765,767	7,837,653	13,036,687	13,230,874
Net position, end of year	\$ 5,054,852	\$ 5,270,920	\$ 7,311,856	\$ 7,765,767	\$ 12,366,708	\$ 13,036,687

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Analysis of Results of Operations:

During fiscal year ended June 30, 2014, the City's net position decreased by \$729,800. Several factors which contributed to this decrease are discussed in the following sections.

A. Governmental Activities Operating Results

The City's expenses from governmental activities operations exceeded revenues by \$216,068 for the fiscal year ended June 30, 2014. Total revenues decreased \$58,026, or approximately 1.7%. Total expenses increased by \$35,741, or approximately 1%.

B. Business-type Activities Operating Results

The City's expenses from business-type activities operations exceeded revenues by \$453,911 for the fiscal year ended June 30, 2014. Total revenues increased \$422,057, or approximately 4.2%. Total expenses increased by \$804,082, or approximately 7.9%.

C. Financial Analysis of the Government's Funds

As noted earlier, the City of Eaton Rapids 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-terms inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government'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 \$1,702,811, an increase of \$65,328 from the prior year. Approximately 32% of this, \$545,518, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate that it is not available for new spending because it has already been restricted or obligated to pay for specific debt services or for a variety of other purposes.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was \$545,518. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance at June 30, 2014, represents 24% of the total General Fund expenditures and other financing uses.

During the fiscal year ended June 30, 2014 the fund balance in the City's General Fund increased by \$50,722.

Budgetary-basis revenues and other financing sources for the General Fund were not amended from the original budget and came in \$42,937 less than budgeted. Expenditures and other financing uses were increased by \$3,430 from the adopted budget and came in \$69,486 below the amended budget, resulting in the favorable variance of \$26,549.

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

Unrestricted net position of the Utility Fund at the end of the year amounted to \$537,040. The most recent fiscal year's activities decreased the net position of the Utility Fund by \$453,911.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

D. Long-Term Debt Activities

As of June 30, 2014, the City had total outstanding debt for governmental activities (including compensated absences) of \$2,406,745. For business-type activities, the outstanding debt (including compensated absences) was \$7,947,473 as of June 30, 2014. For component units, the outstanding debt was \$3,080,000 as of June 30, 2014.

The City has accumulated a long-term liability for absences that have been earned by employees but not yet redeemed. The balance of compensated absences as of June 30, 2014 is \$123,738.

The City made principal payments on long-term debt obligations that reduced the amount of the City's long-term liabilities as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
PRIMARY GOVERNMENT				
Governmental Activities				
2009 Capital improvement bonds	\$ 205,000	\$ -	\$ (15,000)	\$ 190,000
2009 Building authority refunding bonds	2,090,000	-	(190,000)	1,900,000
Capital leases	8,939	298,101	(37,586)	269,454
Compensated absences	48,725	68,004	(69,438)	47,291
	<u>2,352,664</u>	<u>366,105</u>	<u>(312,024)</u>	<u>2,406,745</u>
Business Type Activities				
2008 Capital improvement bonds	400,000	-	(30,000)	370,000
1999 Drinking water bonds	594,806	-	(80,000)	514,806
2004 WWTP improvement bonds	6,612,300	-	(450,000)	6,162,300
Capital lease - water meters	999,323	-	(175,403)	823,920
Compensated absences	79,325	109,931	(112,809)	76,447
	<u>8,685,754</u>	<u>109,931</u>	<u>(848,212)</u>	<u>7,947,473</u>
TOTAL PRIMARY GOVERNMENT	11,038,418	476,036	(1,160,236)	10,354,218
COMPONENT UNITS				
2009 Capital improvement bonds	605,000	-	(25,000)	580,000
2008 Tax increment bonds - LDFA	2,590,000	-	(90,000)	2,500,000
	<u>3,195,000</u>	<u>-0-</u>	<u>(115,000)</u>	<u>3,080,000</u>
TOTAL REPORTING ENTITY	<u>\$ 14,233,418</u>	<u>\$ 476,036</u>	<u>\$(1,275,236)</u>	<u>\$ 13,434,218</u>

Additional information about the City's long-term debt can be found in Note F to the financial statements.

City of Eaton Rapids

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

E. Net Investment in Capital Assets

At the end of the year, the City had invested \$6,963,343 and \$13,947,295 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$402,575 for the governmental activities and \$1,060,245 for the business-type activities. The following chart provides more detail on these capital assets.

	Governmental Activities	Business- Type Activities	Component Units	Total
Land and construction in progress	\$ 888,577	\$ -	\$ 1,401,304	\$ 2,289,881
Buildings and improvements, net	2,724,831	-	-	2,724,831
Land improvements, net	482,011	-	1,453,543	1,935,554
Vehicles, net	822,142	-	-	822,142
Machinery, equipment and furniture, net	51,759	-	-	51,759
Books, net	38,410	-	-	38,410
Infrastructure, net	1,955,613	13,947,295	-	15,902,908
Capital assets, net	\$ 6,963,343	\$ 13,947,295	\$ 2,854,847	\$ 23,765,485

Additional information about the City's capital assets can be found in Note E to the financial statements.

Economic Factors and Next Year's Budgets and Rates

There are several economic factors that will challenge the City in the next several years. These include state revenue sharing cuts, health insurance increases, pension costs and declining assessed property tax values. These factors were considered in the preparation of the City's fiscal year 2014-2015 budgets. In addition, the City Council is currently monitoring, and will evaluate and respond as necessary, to various upcoming State legislation regarding pension plans, employer provided health care and other changes.

Contacting the City's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the City's finances. If you have questions about this report or need additional information, contact Marrie Jo Carr, Treasurer, City of Eaton Rapids, 200 South Main Street, Eaton Rapids, Michigan 48827.

BASIC FINANCIAL STATEMENTS

City of Eaton Rapids

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 886,998	\$ 818,493	\$ 1,705,491	\$ 1,231,378
Investments	651,764	619,978	1,271,742	833,462
Receivables				
Accounts	360	1,123,020	1,123,380	-
Note receivable	-	13,046	13,046	-
Due from other governmental units	153,726	-	153,726	-
Prepays	44,189	377,279	421,468	973
Inventories	-	391,326	391,326	75,448
Total current assets	1,737,037	3,343,142	5,080,179	2,141,261
Noncurrent assets				
Cash and cash equivalents - restricted	-	1,271,521	1,271,521	-
Investments	603,713	574,271	1,177,984	772,015
Capital assets not being depreciated	888,577	-	888,577	1,401,304
Capital assets net of accumulated depreciation	6,074,766	13,947,295	20,022,061	1,453,543
Total noncurrent assets	7,567,056	15,793,087	23,360,143	3,626,862
TOTAL ASSETS	9,304,093	19,136,229	28,440,322	5,768,123
LIABILITIES				
Current liabilities				
Accounts payable	50,720	74,474	125,194	13,043
Accrued liabilities	43,157	42,729	85,886	2,212
Accrued interest	32,245	47,569	79,814	11,893
Current portion of long-term debt	251,791	839,643	1,091,434	120,000
Current portion of maintenance contract payable	-	133,760	133,760	-
Current portion of compensated absences	11,823	19,112	30,935	-
Total current liabilities	389,736	1,157,287	1,547,023	147,148
Noncurrent liabilities				
Customer deposits	-	154,229	154,229	-
Net other post-employment benefit obligation	1,716,374	2,955,979	4,672,353	95,354
Noncurrent portion of long-term debt	2,107,663	7,031,383	9,139,046	2,960,000
Noncurrent portion of maintenance contract payable	-	468,160	468,160	-
Noncurrent portion of compensated absences	35,468	57,335	92,803	-
Total noncurrent liabilities	3,859,505	10,667,086	14,526,591	3,055,354
TOTAL LIABILITIES	4,249,241	11,824,373	16,073,614	3,202,502
NET POSITION				
Net investment in capital assets	4,603,889	6,076,269	10,680,158	(1,626,457)
Restricted				
Bond retirement	-	98,547	98,547	-
Electric utility	-	600,000	600,000	-
Highways and streets	897,663	-	897,663	-
Cemetery perpetual care	106,427	-	106,427	-
Friends of the Island	27,607	-	27,607	-
Dog park	25	-	25	-
Housing services	16,670	-	16,670	-
Unrestricted	(597,429)	537,040	(60,389)	4,192,078
TOTAL NET POSITION	\$ 5,054,852	\$ 7,311,856	\$ 12,366,708	\$ 2,565,621

See accompanying notes to financial statements.

City of Eaton Rapids
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 686,167	\$ 104,575	\$ -	\$ -	\$ (581,592)	\$ -	\$ (581,592)	\$ -
Public safety	1,481,640	27,554	1,165	9,545	(1,443,376)	-	(1,443,376)	-
Public works	881,530	861,205	281,223	-	260,898	-	260,898	-
Community and economic development	217,777	91,977	-	16,670	(109,130)	-	(109,130)	-
Health and welfare	10,472	-	-	-	(10,472)	-	(10,472)	-
Recreation and culture	161,820	22,419	10,741	-	(128,660)	-	(128,660)	-
Interest on long-term debt	88,856	-	-	-	(88,856)	-	(88,856)	-
Total governmental activities	3,528,262	1,107,730	293,129	26,215	(2,101,188)	-0-	(2,101,188)	-0-
Business-type activities								
Electric	8,076,261	8,122,247	-	-	-	45,986	45,986	-
Water	1,065,105	873,275	-	-	-	(191,830)	(191,830)	-
Sewage	1,780,026	1,032,739	-	-	-	(747,287)	(747,287)	-
Total business-type activities	10,921,392	10,028,261	-0-	-0-	-0-	(893,131)	(893,131)	-0-
Total primary government	\$ 14,449,654	\$ 11,135,991	\$ 293,129	\$ 26,215	(2,101,188)	(893,131)	(2,994,319)	-0-
Component units								
LDFA Island Industrial Park	\$ 442,589	\$ -	\$ -	\$ -	-	-	-0-	(442,589)
TIFA I DDA	88,605	-	-	-	-	-	-0-	(88,605)
Total component units	\$ 531,194	\$ -0-	\$ -0-	\$ -0-	-0-	-0-	-0-	(531,194)
General revenues								
Property taxes					1,000,324	578,230	1,578,554	453,473
State shared revenue					435,428	-	435,428	-
Investment earnings					10,019	11,982	22,001	10,217
Other					78,479	209,878	288,357	3,800
Transfers					360,870	(360,870)	-0-	-
Total general revenues and transfers					1,885,120	439,220	2,324,340	467,490
Change in net position								
					(216,068)	(453,911)	(669,979)	(63,704)
Net position, beginning of the year								
					5,270,920	7,765,767	13,036,687	2,629,325
Net position, end of the year								
					\$ 5,054,852	\$ 7,311,856	\$ 12,366,708	\$ 2,565,621

See accompanying notes to financial statements.

City of Eaton Rapids

Governmental Funds

BALANCE SHEET

June 30, 2014

	General Fund	Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 239,595	\$ 439,638	\$ 679,233
Investments	283,242	669,089	952,331
Accounts receivable	360	-	360
Due from other governmental units	94,527	59,199	153,726
Prepays	10,200	838	11,038
	<u>627,924</u>	<u>1,168,764</u>	<u>1,796,688</u>
TOTAL ASSETS	<u>\$ 627,924</u>	<u>\$ 1,168,764</u>	<u>\$ 1,796,688</u>
LIABILITIES			
Accounts payable	\$ 33,929	\$ 16,791	\$ 50,720
Accrued wages payable	38,277	4,880	43,157
	<u>72,206</u>	<u>21,671</u>	<u>93,877</u>
TOTAL LIABILITIES	72,206	21,671	93,877
FUND BALANCES			
Nonspendable	10,200	838	11,038
Restricted	-	1,053,592	1,053,592
Committed	-	92,663	92,663
Unassigned	545,518	-	545,518
	<u>555,718</u>	<u>1,147,093</u>	<u>1,702,811</u>
TOTAL FUND BALANCES	<u>555,718</u>	<u>1,147,093</u>	<u>1,702,811</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 627,924</u>	<u>\$ 1,168,764</u>	<u>\$ 1,796,688</u>

See accompanying notes to financial statements.

City of Eaton Rapids

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2014

Total fund balances - governmental funds \$ 1,702,811

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 12,155,312	
Accumulated depreciation is	<u>(5,191,969)</u>	
Capital assets, net		6,963,343

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the Government-wide Statement of Net Position.

Net position of governmental activities accounted for in the Internal Service Funds	1,082,408	
Capital assets included in the totals above	(814,292)	
Accrued interest included in the total below	6,492	
Capital lease included in the total below	<u>269,454</u>	
		544,062

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds and capital leases payable	(2,359,454)	
Other post-employment benefits obligation	(1,716,374)	
Accrued interest	(32,245)	
Compensated absences	<u>(47,291)</u>	
		<u>(4,155,364)</u>

Net position of governmental activities \$ 5,054,852

City of Eaton Rapids

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2014

	General Fund	Nonmajor Governmental Funds	Total
REVENUES			
Property taxes	\$ 914,518	\$ 90,912	\$ 1,005,430
Licenses and permits	2,768	-	2,768
Intergovernmental			
Local	5,150	8,000	13,150
Federal	1,165	32,711	33,876
State	435,428	387,127	822,555
Charges for services	81,754	62,929	144,683
Fines and forfeits	26,329	-	26,329
Interest and rentals	46,878	3,342	50,220
Donations	-	2,668	2,668
Reimbursements	22,095	-	22,095
Other	790,819	36,731	827,550
	<u>2,326,904</u>	<u>624,420</u>	<u>2,951,324</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	516,150	-	516,150
Public safety	1,119,740	80,114	1,199,854
Public works	358,619	391,774	750,393
Community and economic development	196,637	-	196,637
Health and welfare	10,472	-	10,472
Recreation and culture	-	125,479	125,479
Other	-	1,498	1,498
Debt service	-	295,806	295,806
Capital outlay	19,800	12,772	32,572
	<u>2,221,418</u>	<u>907,443</u>	<u>3,128,861</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES (UNDER) EXPENDITURES			
	105,486	(283,023)	(177,537)
OTHER FINANCING SOURCES (USES)			
Transfers in	10,000	363,629	373,629
Transfers out	(64,764)	(66,000)	(130,764)
	<u>(54,764)</u>	<u>297,629</u>	<u>242,865</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES			
	50,722	14,606	65,328
Fund balances, beginning of year	<u>504,996</u>	<u>1,132,487</u>	<u>1,637,483</u>
Fund balances, end of year	<u>\$ 555,718</u>	<u>\$ 1,147,093</u>	<u>\$ 1,702,811</u>

See accompanying notes to financial statements.

City of Eaton Rapids

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

Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ 65,328

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 357,216	
Depreciation expense	<u>(402,575)</u>	
Excess of depreciation expense over capital outlay		(45,359)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Decrease in net position to Internal Service Funds	56,509	
Capital outlay included in the total above	(323,523)	
Depreciation expense included in the total above	124,521	
Increase in accrued interest included in the total below	<u>6,492</u>	
		(136,001)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amount consist of:

Debt principal retirement		205,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	(4,542)	
(Increase) in other post-employment benefits obligation	(301,928)	
Decrease in accrued compensated absences	<u>1,434</u>	
		<u>(305,036)</u>

Change in net position of governmental activities \$ (216,068)

City of Eaton Rapids

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2014

	Business-type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
ASSETS		
Current assets		
Cash and cash equivalents	\$ 818,493	\$ 207,765
Investments	619,978	157,375
Accounts receivable	1,123,020	-
Note receivable	13,046	-
Prepays	377,279	33,151
Inventories	391,326	-
Total current assets	3,343,142	398,291
Noncurrent assets		
Cash and cash equivalents - restricted	1,271,521	-
Investments	574,271	145,771
Capital assets, net of accumulated depreciation	13,947,295	814,292
Total noncurrent assets	15,793,087	960,063
TOTAL ASSETS	19,136,229	1,358,354
LIABILITIES		
Current liabilities		
Accounts payable	74,474	-
Accrued interest payable	47,569	6,492
Accrued payroll	42,729	-
Current portion of compensated absences	19,112	-
Current portion of long-term debt	839,643	26,791
Current portion of maintenance contract payable	133,760	-
Total current liabilities	1,157,287	33,283
Noncurrent liabilities		
Net other post-employment benefits obligation	2,955,979	-
Customer deposits	154,229	-
Noncurrent portion of compensated absences	57,335	-
Noncurrent portion of long-term debt	7,031,383	242,663
Noncurrent portion of maintenance contract payable	468,160	-
Total noncurrent liabilities	10,667,086	242,663
TOTAL LIABILITIES	11,824,373	275,946
NET POSITION		
Net investment in capital assets	6,076,269	544,838
Restricted		
Bond retirement	98,547	-
Electric utility	600,000	-
Unrestricted	537,040	537,570
TOTAL NET POSITION	\$ 7,311,856	\$ 1,082,408

See accompanying notes to financial statements.

City of Eaton Rapids

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2014

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Utility Fund</u>	<u>Internal Service Funds</u>
OPERATING REVENUES		
Charges for services	\$ 10,028,261	\$ 791,736
Fines and forfeitures	35,859	-
Other revenue	<u>174,019</u>	<u>79,166</u>
 TOTAL OPERATING REVENUES	 10,238,139	 870,902
OPERATING EXPENSES		
Personal services	1,097,937	-
Contractual services	126,537	-
Supplies	42,871	-
Materials	150,562	-
Utilities	227,647	-
Telephone	12,281	-
Insurance	35,309	-
Maintenance	6,747,733	-
Benefit payments	1,175,065	795,712
Other expense	33,975	-
Depreciation	<u>1,060,245</u>	<u>124,521</u>
 TOTAL OPERATING EXPENSES	 <u>10,710,162</u>	 <u>920,233</u>
 OPERATING (LOSS)	 (472,023)	 (49,331)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	578,230	-
Interest income	11,982	-
Interest expense	<u>(211,230)</u>	<u>(12,165)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>378,982</u>	 <u>(12,165)</u>
 (LOSS) BEFORE TRANSFERS	 (93,041)	 (61,496)
TRANSFERS		
Transfers in	-	118,005
Transfers out	<u>(360,870)</u>	<u>-</u>
 TOTAL TRANSFERS	 <u>(360,870)</u>	 <u>118,005</u>
 CHANGE IN NET POSITION	 (453,911)	 56,509
Net position, beginning of year	<u>7,765,767</u>	<u>1,025,899</u>
Net position, end of year	<u><u>\$ 7,311,856</u></u>	<u><u>\$ 1,082,408</u></u>

See accompanying notes to financial statements.

City of Eaton Rapids
Proprietary Funds
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Utility Fund</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 10,119,308	\$ -
Cash received from interfund services	-	878,003
Cash paid to suppliers	(8,151,082)	(795,676)
Payments to employees	<u>(1,084,843)</u>	<u>-</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 883,383	 82,327
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	-	118,005
Transfers out	<u>(360,870)</u>	<u>-</u>
 NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	 (360,870)	 118,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest payment	-	(5,673)
Purchase of capital assets	(17,572)	(25,422)
Property taxes	578,230	-
Principal payments on long-term debt	(735,403)	(37,586)
Interest and fiscal charges	<u>(204,137)</u>	<u>-</u>
 NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 (378,882)	 (68,681)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturity of investments	248,165	35,371
Purchase of investments	-	(43,615)
Interest received	<u>11,982</u>	<u>-</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 <u>260,147</u>	 <u>(8,244)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 403,778	 123,407
 Cash and cash equivalents, beginning of year	 <u>1,686,236</u>	 <u>84,358</u>
 Cash and cash equivalents, end of year	 <u>\$ 2,090,014</u>	 <u>\$ 207,765</u>

City of Eaton Rapids

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2014

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Utility Fund</u>	<u>Internal Service Funds</u>
Reconciliation of operating (loss) to net cash provided by operating activities		
Operating (loss)	\$ (472,023)	\$ (49,331)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,060,245	124,521
Changes in assets and liabilities:		
Accounts receivable	(136,986)	7,137
Inventory	(22,658)	-
Customer deposits	8,744	-
Prepaid expense	8,056	-
Accrued interest	1,355	-
Accounts payable	37,326	-
Notes payable	(133,760)	-
Accrued payroll	15,972	-
Accrued sick and vacation payable	(2,878)	-
Other post-employment benefits	519,990	-
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 883,383</u>	 <u>\$ 82,327</u>

See accompanying notes to financial statements.

City of Eaton Rapids

Fiduciary Fund

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 222,223</u>
LIABILITIES	
Due to local units	<u>\$ 222,223</u>

City of Eaton Rapids

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2014

	LDFA Island Industrial Park	TIFA I Downtown Development Authority	Total
ASSETS			
Current assets			
Cash	\$ 1,044,076	\$ 187,302	\$ 1,231,378
Investments	691,587	141,875	833,462
Prepays	-	973	973
Inventories	-	75,448	75,448
Total current assets	1,735,663	405,598	2,141,261
Noncurrent assets			
Investments	640,600	131,415	772,015
Capital assets not being depreciated	790,047	611,257	1,401,304
Capital assets being depreciated	1,453,543	-	1,453,543
Total noncurrent assets	2,884,190	742,672	3,626,862
TOTAL ASSETS	4,619,853	1,148,270	5,768,123
LIABILITIES			
Current liabilities			
Accounts payable	6,136	6,907	13,043
Accrued wages	2,141	71	2,212
Accrued interest	9,650	2,243	11,893
Current portion of long-term debt	90,000	30,000	120,000
Total current liabilities	107,927	39,221	147,148
Noncurrent liabilities			
Noncurrent portion of long-term debt	2,410,000	550,000	2,960,000
Net other post-employment benefit obligation	95,354	-	95,354
Total noncurrent liabilities	2,505,354	550,000	3,055,354
TOTAL LIABILITIES	2,613,281	589,221	3,202,502
NET POSITION			
Net investment in capital assets	(1,046,457)	(580,000)	(1,626,457)
Unrestricted	3,053,029	1,139,049	4,192,078
TOTAL NET POSITION	\$ 2,006,572	\$ 559,049	\$ 2,565,621

See accompanying notes to financial statements.

City of Eaton Rapids

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position		
		L DFA Island Industrial Park	TIFA I Downtown Development Authority	Total
Governmental activities				
L DFA Island Industrial Park	\$ 442,589	\$ (442,589)	\$ -	\$ (442,589)
TIFA I Downtown Development Authority	88,605	-	(88,605)	(88,605)
TOTALS	\$ 531,194	(442,589)	(88,605)	(531,194)
General revenues				
Property taxes		325,286	128,187	453,473
Investment earnings		8,423	1,794	10,217
Other		-	3,800	3,800
Total general revenues		333,709	133,781	467,490
Change in net position		(108,880)	45,176	(63,704)
Net position, beginning of the year		2,115,452	513,873	2,629,325
Net position, end of the year		\$ 2,006,572	\$ 559,049	\$ 2,565,621

See accompanying notes to financial statements.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and streets, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City of Eaton Rapids (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Discretely Presented Component Units

The TIFA I Downtown Development Authority and the LDFA Island Industrial Park (component units) are reported in a separate column to emphasize that, while legally separate, the City of Eaton Rapids remains financially accountable for these entities or the nature and significance of the relationship between these entities and the City of Eaton Rapids is such that exclusion of these entities would render the financial statements misleading or incomplete.

The governing bodies of the TIFA I Downtown Development Authority and the LDFA Island Industrial Park are appointed by the City Council, the budgets are subject to the approval of the City Council, the City temporarily relinquishes part of its tax base to the entities (tax increment revenues), and the City has pledged its full faith and credit toward payment of the entities' debt.

3. Blended Component Unit

The City of Eaton Rapids council established the City of Eaton Rapids Building Authority under State law. The three member Authority Board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for the City of Eaton Rapids purposes.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements, but interfund services provided and used are not eliminated in the process of consolidation. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

The City reports the following major enterprise fund:

- a. The Utility Fund is used to account for activities and operations of the electric plant, water, and sewage treatment plant. These activities are financed primarily through property taxes and user charges.

Additionally, the City reports internal service funds to account for the management of a motor vehicles pool and employee benefits services provided to departments on a cost reimbursement basis.

The City also reports fiduciary funds to account for assets held by the City as agent (Agency Funds) for others. Fiduciary Funds are not included in the government-wide financial statements.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet, when applicable. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

There is no measurement focus for agency funds since assets equal liabilities.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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 Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and any major special revenue funds' budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers' comments by the end of May.
- c. No later than the third Monday in June, the budget is legally enacted through passage of a resolution.
- d. The City Manager is authorized to make budgetary transfers between the line items of departments established through these budget, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Budgets and Budgetary Accounting - continued

- f. Budgets for General and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
- g. All annual appropriations lapse at year end.

The General Fund budget is adopted on an activity level basis and the Special Revenue Funds' budgets are adopted on a total fund level.

8. Cash, Cash Equivalents, and Investments

Cash consists of checking and savings accounts and cash on hand.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are stated at cost, which is equal to market value.

All highly liquid investments (included restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

9. Restricted Cash

Certain revenues and resources in the proprietary fund types are classified as restricted on the balance sheet because their use is limited. The restricted cash and cash equivalents of the City reported in the Utility Fund represent customer deposits and accumulated funds required for the applicable bond covenants are held in a separate account.

10. Receivables and Due from other Governments

Receivables consist of amounts due from the State and Federal Government for various payments and grants and receivables for charges for services provided to local governmental units, accounts receivable related to charges for services, interest receivable, and other amounts owed to the City at year-end.

11. Property Tax

Property taxes are levied by the City on July 1 and are payable without penalty through August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy taxes up to 8.5538 mills (\$8.55 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2014, the City levied 8.5538 mills per \$1,000 of taxable valuation for general governmental services and 0.8551 mills for parks and recreation. An additional 4.3700 mills was also levied for wastewater improvements. The total taxable value for the 2013 levy for the property within the City was \$122,863,953.

<u>Fund</u>	<u>Mills</u>	<u>Revenue</u>
Operating	8.5538	\$ 889,311
Parks & Recreation	0.8551	89,387
Utility	4.3700	540,035

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial cost of \$5,000 or more and an estimated useful life of more than three years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	10 - 20 years
Buildings and improvements	10 - 40 years
Machinery, equipment, and furniture	5 - 20 years
Books	5 years
Vehicles	3 - 10 years
Utility Systems	10 - 40 years
Infrastructure	20 - 25 years

13. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year are reported as current liabilities with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Compensated Absences

The cost of the compensated absences, including related payroll taxes, is recorded in the government-wide financial statements for governmental activities. For proprietary funds, it is recorded as a liability and expensed as incurred.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of 3 days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. 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, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

Currently, the City does not report any deferred outflows of resources or deferred inflows of resources.

16. Inventories

Inventories in the enterprise fund consists of water, sewer, and electric system supplies which are stated at the lower of cost or market on a first-in/first-out basis.

17. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

18. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

19. Interfund Transactions

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

20. Restrictions of net position

Restrictions of net position shown in the Government-wide financial statement indicate that restrictions imposed by an outside source which precludes their use for unrestricted purposes.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2014, the carrying amounts of the City's deposits were \$8,485,166 and the bank balance was \$8,486,866, of which \$5,318,905 was covered by federal depository insurance. The balance of \$3,167,961 was uninsured and uncollateralized.

As of June 30, 2014, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 2,976,362	\$ 2,992,905
Certificates of deposit	<u>2,449,726</u>	<u>2,434,883</u>
Total primary government	5,426,088	5,427,788
FIDUCIARY FUNDS		
Checking and savings	222,223	222,223
COMPONENT UNITS		
Checking and savings	1,231,378	1,231,378
Certificates of deposit	<u>1,605,477</u>	<u>1,605,477</u>
Total component units	<u>2,836,855</u>	<u>2,836,855</u>
TOTAL REPORTING ENTITY	<u><u>\$ 8,485,166</u></u>	<u><u>\$ 8,486,866</u></u>

The cash and cash equivalents captions in the basic financial statements include \$650 in imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2014 the City did not have any investments that would require such a rating.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the "Authorized and Suitable Investments" section of the investment policy; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the "Qualified Institutions" section of the investment policy; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

As of June 30, 2014, the cash and cash equivalents referred to above have been reported in either the cash and cash equivalents captions in the basic financial statements in the following categories:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 1,705,491	\$ 1,231,378	\$ 222,223	\$ 3,159,092
Cash and cash equivalents - restricted	1,271,521	-	-	1,271,521
Investments	<u>2,449,726</u>	<u>1,605,477</u>	<u>-</u>	<u>4,055,203</u>
	<u>\$ 5,426,738</u>	<u>\$ 2,836,855</u>	<u>\$ 222,223</u>	<u>\$ 8,485,816</u>

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of June 30, 2014:

	<u>Utility Fund</u>
Customer deposits	\$ 154,229
Restricted cash	<u>1,117,292</u>
	<u>\$ 1,271,521</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, interfund transfers have been eliminated.

Transfer to General Fund from:	
Nonmajor governmental funds	<u>\$ 10,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 30,553
Utility Fund	277,076
Nonmajor governmental funds	<u>56,000</u>
	<u>\$ 363,629</u>
Transfer to Internal Service fund from:	
General Fund	\$ 34,211
Utility Fund	<u>83,794</u>
	<u>\$ 118,005</u>

The transfers to the nonmajor governmental (Building Authority), and Internal Service (Motor Pool) fund were for debt payments. The other transfers made during the year to various funds were for the purposes of funding specific projects within certain funds or to cover operational costs reflected in a particular fund.

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Primary Government

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 877,077	\$ -	\$ -	\$ 877,077
Construction in progress	22,147	-	(10,647)	<u>11,500</u>
Total capital assets not being depreciated	899,224	-0-	(10,647)	888,577
Capital assets being depreciated				
Buildings and improvements	5,250,969	-	-	5,250,969
Land improvements	884,211	-	-	884,211
Vehicles	1,522,782	323,523	(103,962)	1,742,343
Machinery, equipment, and furniture	682,926	22,750	-	705,676
Books	166,375	10,943	-	177,318
Infrastructure	<u>2,495,571</u>	<u>10,647</u>	<u>-</u>	<u>2,506,218</u>
Subtotal	11,002,834	367,863	(103,962)	11,266,735

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Governmental activities - continued				
Less accumulated depreciation for:				
Buildings and improvements	\$ (2,431,931)	\$ (94,207)	\$ -	\$ (2,526,138)
Land improvements	(367,849)	(34,351)	-	(402,200)
Vehicles	(925,739)	(98,424)	103,962	(920,201)
Machinery, equipment, and furniture	(628,612)	(25,305)	-	(653,917)
Books	(123,233)	(15,675)	-	(138,908)
Infrastructure	(415,992)	(134,613)	-	(550,605)
Subtotal	<u>(4,893,356)</u>	<u>(402,575)</u>	<u>\$ 103,962</u>	<u>(5,191,969)</u>
Net capital assets being depreciated	<u>6,109,478</u>	<u>(34,712)</u>	<u>-0-</u>	<u>6,074,766</u>
Capital assets, net	<u>\$ 7,008,702</u>	<u>\$ (34,712)</u>	<u>\$ (10,647)</u>	<u>\$ 6,963,343</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 175,664
Public safety	151,930
Public works	50,720
Recreation and culture	24,261
Total depreciation expense	<u>\$ 402,575</u>

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 1,303,186	\$ -	\$ (1,303,186)	\$ -0-
Capital assets being depreciated				
Water	8,793,898	17,572	-	8,811,470
Electric	7,088,888	1,303,186	-	8,392,074
Sewage	14,793,899	-	-	14,793,899
Subtotal	<u>30,676,685</u>	<u>1,320,758</u>	<u>-0-</u>	<u>31,997,443</u>
Less accumulated depreciation for:				
Water	(3,882,902)	(263,717)	-	(4,146,619)
Electric	(5,534,240)	(281,242)	-	(5,815,482)
Sewage	(7,572,761)	(515,286)	-	(8,088,047)
Subtotal	<u>(16,989,903)</u>	<u>(1,060,245)</u>	<u>-0-</u>	<u>(18,050,148)</u>
Net capital assets being depreciated	<u>13,686,782</u>	<u>260,513</u>	<u>-0-</u>	<u>13,947,295</u>
Capital assets, net	<u>\$ 14,989,968</u>	<u>\$ 260,513</u>	<u>\$ (1,303,186)</u>	<u>\$ 13,947,295</u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: CAPITAL ASSETS - CONTINUED

Component Units

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Component Units				
Capital assets not being depreciated				
Land	\$ 1,291,623	\$ -	\$ -	\$ 1,291,623
Construction in progress	1,574,056	65,670	(1,530,045)	109,681
 Total capital assets not being depreciated	 2,865,679	 65,670	 (1,530,045)	 1,401,304
Capital assets being depreciated				
Land improvements	-	1,530,045	-	1,530,045
Less accumulated depreciation for:				
Land improvements	-	(76,502)	-	(76,502)
 Net capital assets being depreciated	 -0-	 1,453,543	 -0-	 1,453,543
 Capital assets, net	 \$ 2,865,679	 \$ 1,519,213	 \$ (1,530,045)	 \$ 2,854,847

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
2009 Capital improvement bonds	\$ 205,000	\$ -	\$ (15,000)	\$ 190,000	\$ 15,000
2009 Building authority refunding bonds	2,090,000	-	(190,000)	1,900,000	210,000
Capital lease - Komatsu	8,939	-	(8,939)	-0-	-
Capital lease - Fire Truck	-	298,101	(28,647)	269,454	26,791
Compensated absences	48,725	68,004	(69,438)	47,291	11,823
	2,352,664	366,105	(312,024)	2,406,745	263,614
Business-type Activities					
2008 Capital improvement bonds	400,000	-	(30,000)	370,000	35,000
1999 Drinking water bonds	594,806	-	(80,000)	514,806	80,000
2004 WWTP improvement bonds	6,612,300	-	(450,000)	6,162,300	460,000
Capital lease - water meters	999,323	-	(175,403)	823,920	264,643
Compensated absences	79,325	109,931	(112,809)	76,447	19,112
	8,685,754	109,931	(848,212)	7,947,473	858,755
 TOTAL PRIMARY GOVERNMENT	 11,038,418	 476,036	 (1,160,236)	 10,354,218	 1,122,369

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
COMPONENT UNITS					
2009 Capital improvement bonds	\$ 605,000	\$ -	\$ (25,000)	\$ 580,000	\$ 30,000
2008 Tax increment bonds - LDFA	2,590,000	-	(90,000)	2,500,000	90,000
TOTAL COMPONENT UNIT	<u>3,195,000</u>	<u>-0-</u>	<u>(115,000)</u>	<u>3,080,000</u>	<u>120,000</u>
TOTAL REPORTING ENTITY	<u>\$ 14,233,418</u>	<u>\$ 476,036</u>	<u>\$ (1,275,236)</u>	<u>\$ 13,434,218</u>	<u>\$ 1,242,369</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Bonds

\$265,000 Capital Improvement Bonds dated September 15, 2009 due in annual installments of \$15,000 to \$25,000 through June 2024 with interest ranging from 4.0 to 5.0 percent, payable semi-annually. \$ 190,000

\$2,645,000 Building Authority Refunding Bonds dated December 23, 2009 due in annual installments of \$205,000 to \$270,000 through March 2022, with interest ranging from 3.25 to 4.3 percent, payable semi-annually. 1,900,000

\$555,000 Capital Improvement Bonds dated November 20, 2008 due in annual installments of \$35,000 to \$50,000 through June 2022, with interest rate ranging from 4.75 to 5.0 percent, payable semi-annually. 370,000

\$ 2,460,000

Capital Leases

\$298,101 capital lease entered into December 14, 2012, due in annual installments of \$34,210 through August 15, 2022, including interest at 2.75 percent. \$ 269,454

\$1,167,111 capital lease entered into February 2012, due in quarterly installments of \$72,834 through April 2017, including interest at 3.696 percent. 823,920

\$ 1,093,374

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Revenue Bonds

\$1,494,806 Drinking Water Bonds dated September 30, 1999 due in annual installments of \$80,000 to \$90,000 through April 2020, with an interest rate of 2.5 percent, payable semi-annually. \$ 514,806

\$9,545,000 WWTP Improvement Bonds dated September 23, 2004 due in annual installments of \$450,000 to \$565,000 through April 2026, with interest ranging from 4.75 to 5.00 percent, payable semi-annually. 6,162,300

\$ 6,677,106

Compensated absences

In accordance with the City's personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused sick pay under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amount to \$47,291 for governmental activities and \$76,447 for business-type activities. Of these amounts \$30,935 has been recorded as a current liability. The balance of \$92,803 has been recorded as a noncurrent liability.

COMPONENT UNITS

General Obligation Bonds

\$710,000 Capital Improvement Bonds dated September 15, 2009 due in annual installments of \$30,000 to \$55,000 through June 2029, with interest ranging from 4.0 to 5.0 percent, payable semi-annually. \$ 580,000

\$2,945,000 Local Development Finance Authority Bonds dated November 20, 2008 due in annual installments of \$90,000 to \$235,000 through June 2028, with interest ranging from 4.1 to 5.0 percent, payable semi-annually. 2,500,000

\$ 3,080,000

Advance Refunding - Prior

On December 23, 2009, the City defeased a portion of the 2002 Building Authority Bonds which were due and payable March 1, 2011 through March 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued Building Authority 2009 Refunding Bonds in the amount of \$2,645,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2014, bonds due and payable March 1, 2015 through March 1, 2022 for the 2002 Building Authority Bonds in the amount of \$1,900,000 are considered defeased.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Bonds, Notes, and other obligations are as follows:

Year Ended June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 225,000	\$ 83,506	\$ 575,000	\$ 161,956
2016	220,000	76,082	590,000	148,519
2017	245,000	68,306	600,000	134,745
2018	245,000	58,506	620,000	120,756
2019	270,000	48,706	630,000	106,194
2020-2024	885,000	82,692	2,924,806	314,864
2025-2028	-	-	1,107,300	35,373
	<u>\$ 2,090,000</u>	<u>\$ 417,798</u>	<u>\$ 7,047,106</u>	<u>\$ 1,022,407</u>

Year Ended June 30,	Component Units		Capital Lease - Governmental Activities		Capital Lease - Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 120,000	\$ 142,725	\$ 26,791	\$ 7,419	\$ 264,643	\$ 26,696
2016	155,000	137,835	27,528	6,682	274,517	16,822
2017	155,000	131,510	28,287	5,923	284,760	6,579
2018	195,000	124,685	29,066	5,144	-	-
2019	195,000	116,060	29,865	4,345	-	-
2020-2024	1,125,000	439,005	127,917	8,923	-	-
2025-2029	1,135,000	149,625	-	-	-	-
	<u>\$ 3,080,000</u>	<u>\$ 1,241,445</u>	<u>\$ 269,454</u>	<u>\$ 38,436</u>	<u>\$ 823,920</u>	<u>\$ 50,097</u>

NOTE G: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, which is an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Michigan Municipal Employees' Retirement System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: RETIREMENT PLAN - CONTINUED

Funding Policy

The obligation to contribute to and maintain the current system for these employees was established by negotiation with the City's competitive bargaining units. Required employee and employer contribution rates are as follows:

	2014		2013	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Admin	2.00%	22.41%	2.00%	20.64%
P/C Empl	6.25%	17.87%	5.65%	16.68%
Admn Asst.	0.00%	9.68%	0.00%	9.52%
DPW	6.25%	0.00%	6.25%	12.36%

Annual Pension Cost

For year ended June 30, 2014 the City's annual pension cost of \$360,424 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age normal cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of twenty-six years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Actuarial value of assets	\$ 8,327,342	\$ 8,728,080	\$ 8,963,196
Actuarial accrued liability (AAL) (entry age)	11,594,517	12,365,466	12,945,118
Unfunded AAL	3,267,175	3,637,386	3,981,922
Funded ratio	72%	71%	69%
Covered payroll	2,311,471	2,081,782	1,902,428
UAAL as a percentage of covered payroll	141%	175%	209%

This trend information was obtained from the MERS actuarial reports as of December 31, 2011, 2012, and 2013.

	Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual pension cost	\$ 335,892	\$ 339,108	\$ 360,424
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City of Eaton Rapids offers post-employment health insurance benefits to all eligible retired employees in accordance with union agreements and/or personnel policies. These benefits are provided by contractual agreement and are paid annually by various funds. The City funds these costs on a pay-as-you-go basis. These amounts are recorded as an expenditure when the fund liability is incurred.

Certain retirees contribute 10-20% of the cost of their insurance until Medicare eligibility age is reached, after which the City pays 100% of the cost for secondary coverage.

Membership in the plan at June 30, 2013 was as follows:

Retirees and Beneficiaries receiving benefits	21
Active plan members	<u>33</u>
	<u><u>54</u></u>

Funding Policy

The City's annual other post-employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer* (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the City.

Funding Progress

For the year ended June 30, 2014, the City has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of June 30, 2013. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 918,143
Interest on net OPEB obligation	157,161
Adjustment to annual required contribution	<u>(28,044)</u>
Annual OPEB cost	1,047,260
Contributions made	<u>(208,568)</u>
Change in Net OPEB obligation	838,692
OPEB obligation - beginning of year	<u>3,929,015</u>
OPEB obligation - end of year	<u><u>\$ 4,767,707</u></u>

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress - continued

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three (3) years, are as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 1,047,260	19.9%	\$ 4,767,707
2013	882,986	22.9%	3,929,015
2012	1,294,854	14.2%	3,248,188

The current funding progress of the plan as of June 30, 2013, the most recent valuation date, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	10,129,446
Unfunded (UAAL)	10,129,446
Funded ratio	0%
Annual covered payroll	2,407,675
Ratio of UAAL to covered payroll	421%

Information related to funding progress with multiyear trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits is not presented.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE I: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE I: RISK MANAGEMENT - CONTINUED

The City also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property, liability, crime, and auto losses. The pool is organized under Public Act 138 of 1982, as amended. State pool members' limits of coverage (per occurrence) are detailed in their policy agreements with the Authority. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE J: CONTINGENT LIABILITIES

The City continues to monitor and perform annual testing of the City's landfill that has been closed for several years. Michigan Department of Environmental Quality (MDEQ) requires that this maintenance be performed. At this time, it is impossible to predict with any accuracy what, if any, additional remedial work may be required by MDEQ prior to approval for final closure of the landfill.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE K: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority.

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE K: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

Fund Balance Classification Policies and Procedures

For committed fund balance, the City of Eaton Rapids highest level of decision-making authority is the City Council. Formal action that is required to be taken to establish a fund balance commitment has not been determined by the City Council.

For assigned fund balance, the City Council has not approved a policy indicating anyone is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the City Council.

The City of Eaton Rapids has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy the City considers restricted amount to have been spent first when expenditure is incurred for which both restricted and unrestricted fund balance is available.

At year ended June 30, 2014, the City of Eaton Rapids had the following fund balance classifications:

	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Fund Balances			
Nonspendable			
Prepays	\$ 10,200	\$ 838	\$ 11,038
Restricted			
Highways and streets	-	897,663	897,663
Cemetery perpetual care	-	106,427	106,427
Friends of the island	-	27,607	27,607
Dog park	-	25	25
Housing services	-	16,670	16,670
Debt service	-	5,200	5,200
Committed			
Parks and recreation	-	84,142	84,142
Drug enforcement	-	1,409	1,409
Act 302 training	-	5,884	5,884
Capital projects	-	1,228	1,228
Unassigned	<u>545,518</u>	<u>-</u>	<u>545,518</u>
 TOTAL FUND BALANCES	 <u>\$ 555,718</u>	 <u>\$ 1,147,093</u>	 <u>\$ 1,702,811</u>

NOTE L: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the City's 2014-2015 fiscal year.

City of Eaton Rapids

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE M: MAINTENANCE CONTRACT

The City has entered in to a non-cancelable maintenance contract for the City's water towers. The contract states that if the contract is canceled prior to the payment of the sixth installment the balance owed on the first six installments will be due within thirty days of cancelation. The value of the remaining payments has been recorded as a liability in the City's Utility Fund.

Future minimum payments under this contract are as follows:

Year Ended June 30,	
2015	\$ 133,760
2016	133,760
2017	133,760
2018	133,760
2019	<u>66,880</u>
	<u>\$ 601,920</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variances with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 939,941	\$ 939,941	\$ 909,412	\$ (30,529)
Penalties and interest	10,000	10,000	4,299	(5,701)
Trailer fee	900	900	807	(93)
Total taxes	950,841	950,841	914,518	(36,323)
Licenses and permits				
Licenses	300	300	2,768	2,468
Zoning board of appeals	150	150	-	(150)
Total licenses and permits	450	450	2,768	2,318
Intergovernmental				
Local	5,150	5,150	5,150	-0-
Federal	52,000	52,000	1,165	(50,835)
State aid and sales tax	351,500	351,500	435,428	83,928
Total intergovernmental	408,650	408,650	441,743	33,093
Charges for services				
Administrative fees	60,000	60,000	60,550	550
Penal fines	22,000	22,000	20,645	(1,355)
Video fees	600	600	559	(41)
Total charges for services	82,600	82,600	81,754	(846)
Fines and forfeits	29,500	29,500	26,329	(3,171)
Interest	10,000	10,000	5,832	(4,168)
Rentals	65,050	65,050	41,046	(24,004)
Reimbursements	22,500	22,500	22,095	(405)
Other				
Franchise fees	717,200	717,200	721,311	4,111
Other	83,050	83,050	69,508	(13,542)
Total other	800,250	800,250	790,819	(9,431)
TOTAL REVENUES	2,369,841	2,369,841	2,326,904	(42,937)

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

EXPENDITURES	Budgeted Amounts		Actual	Variances with Final Budget Positive (Negative)
	Original	Final		
Current				
General government				
City Council	\$ 31,800	\$ 31,800	\$ 25,305	\$ 6,495
City Manager	57,440	57,440	55,878	1,562
General election	6,750	6,750	5,878	872
Assessor	110,926	114,356	119,366	(5,010)
Treasurer	40,557	40,557	28,860	11,697
City Clerk	77,290	77,290	82,278	(4,988)
Board of Review	650	650	502	148
Building and grounds	33,000	33,000	33,373	(373)
Senior citizens	6,000	6,000	6,000	-0-
Cemetery	51,369	51,369	72,003	(20,634)
Other	100,702	100,702	86,707	13,995
Total general government	516,484	519,914	516,150	3,764
Public safety				
Police	1,007,429	1,007,429	1,002,805	4,624
Fire	124,957	124,957	116,935	8,022
Total public safety	1,132,386	1,132,386	1,119,740	12,646
Public works	420,829	420,829	358,619	62,210
Community and economic development				
Library	172,878	172,878	170,921	1,957
Planning and zoning	25,950	25,950	25,716	234
Total community and economic development	198,828	198,828	196,637	2,191
Health and welfare				
Ambulance	10,500	10,500	10,472	28
Capital outlay	24,000	24,000	19,800	4,200
TOTAL EXPENDITURES	2,303,027	2,306,457	2,221,418	85,039
EXCESS OF REVENUES OVER EXPENDITURES	66,814	63,384	105,486	42,102

City of Eaton Rapids

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 10,000	\$ 10,000	\$ 10,000	\$ -0-
Transfers out	<u>(49,211)</u>	<u>(49,211)</u>	<u>(64,764)</u>	<u>(15,553)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(39,211)</u>	<u>(39,211)</u>	<u>(54,764)</u>	<u>(15,553)</u>
NET CHANGE IN FUND BALANCE	27,603	24,173	50,722	26,549
Fund balance, beginning of year	<u>504,996</u>	<u>504,996</u>	<u>504,996</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 532,599</u>	<u>\$ 529,169</u>	<u>\$ 555,718</u>	<u>\$ 26,549</u>

City of Eaton Rapids

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Defined Benefit Pension Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2013	\$ 8,963,196	\$ 12,945,118	\$ 3,981,922	69 %	\$ 1,902,428	209 %
6/30/2012	8,728,080	12,365,466	3,637,386	71 %	2,081,782	175 %
6/30/2011	8,327,342	11,594,517	3,267,175	72 %	2,311,471	141 %

Schedule of Employer Contributions

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 360,424	100%	\$ -
2013	339,108	100%	-
2012	335,892	100%	-

City Employees - Post-Employment Health Care Benefits

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2013	\$ -	\$ 10,129,446	\$ 10,129,446	- %	\$ 2,407,675	421 %
6/30/2010	-	12,919,337	12,919,337	- %	2,500,128	517 %

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2014	\$ 1,047,260	19.9%	\$ 4,767,707
2013	882,986	22.9%	3,929,015
2012	1,294,854	14.2%	3,248,188

City of Eaton Rapids

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local government unit not incur expenditures in excess of amounts appropriated.

During the year ended June 30, 2014, the City incurred expenditures in the General Fund and one Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
General government			
Assessor	\$ 114,356	\$ 119,366	\$ 5,010
City Clerk	77,290	82,278	4,988
Building and grounds	33,000	33,373	373
Cemetery	51,369	72,003	20,634
Transfers out	49,211	64,764	15,553
ACT 302 Training Fund	1,010	2,428	1,418

OTHER SUPPLEMENTARY INFORMATION

City of Eaton Rapids
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2014

	Special		
	Major Street Fund	Local Street Fund	Act 302 Training
ASSETS			
Cash and cash equivalents	\$ 174,029	\$ 145,199	\$ 2,393
Investments	278,132	246,411	3,491
Due from other governmental units	43,728	15,471	-
Prepays	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 495,889</u>	<u>\$ 407,081</u>	<u>\$ 5,884</u>
LIABILITIES			
Accounts payable	\$ 3,399	\$ 1,096	\$ -
Accrued wages payable	691	121	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	4,090	1,217	-0-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	491,799	405,864	-
Committed	-	-	5,884
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>491,799</u>	<u>405,864</u>	<u>5,884</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 495,889</u>	<u>\$ 407,081</u>	<u>\$ 5,884</u>

Revenue Funds

Parks and Recreation	Building Department	Drug Law Enforcement	MSHDA CDBG	Dog Park
\$ 39,245	\$ -	\$ 573	\$ 16,670	\$ 25
55,036	4,823	836	-	-
-	-	-	-	-
834	4	-	-	-
<u>\$ 95,115</u>	<u>\$ 4,827</u>	<u>\$ 1,409</u>	<u>\$ 16,670</u>	<u>\$ 25</u>
\$ 7,630	\$ 3,264	\$ -	\$ -	\$ -
2,509	1,559	-	-	-
10,139	4,823	-0-	-0-	-0-
834	4	-	-	-
-	-	-	16,670	25
84,142	-	1,409	-	-
<u>84,976</u>	<u>4</u>	<u>1,409</u>	<u>16,670</u>	<u>25</u>
<u>\$ 95,115</u>	<u>\$ 4,827</u>	<u>\$ 1,409</u>	<u>\$ 16,670</u>	<u>\$ 25</u>

City of Eaton Rapids

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2014

	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent</u>
	<u>Building</u>	<u>Capital Project</u>	<u>Cemetery</u>
	<u>Authority Debt</u>	<u>Capital Project</u>	<u>Perpetual</u>
			<u>Care</u>
ASSETS			
Cash and cash equivalents	\$ 5,200	\$ 1,228	\$ 43,279
Investments	-	-	63,148
Due from other governmental units	-	-	-
Prepays	-	-	-
	<u>5,200</u>	<u>1,228</u>	<u>106,427</u>
TOTAL ASSETS	<u>\$ 5,200</u>	<u>\$ 1,228</u>	<u>\$ 106,427</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued wages payable	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	5,200	-	106,427
Committed	-	1,228	-
	<u>5,200</u>	<u>1,228</u>	<u>106,427</u>
TOTAL FUND BALANCES	<u>5,200</u>	<u>1,228</u>	<u>106,427</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,200</u>	<u>\$ 1,228</u>	<u>\$ 106,427</u>

<u>Funds</u>			
<u>Friends of the Island</u>		<u>Total</u>	
\$ 11,797		\$ 439,638	
17,212		669,089	
-		59,199	
-		838	
<hr/>		<hr/>	
\$ 29,009		\$ 1,168,764	
<hr/>		<hr/>	
\$ 1,402		\$ 16,791	
-		4,880	
<hr/>		<hr/>	
1,402		21,671	
-		838	
27,607		1,053,592	
-		92,663	
<hr/>		<hr/>	
27,607		1,147,093	
<hr/>		<hr/>	
\$ 29,009		\$ 1,168,764	
<hr/>		<hr/>	

City of Eaton Rapids

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended June 30, 2014

	Special		
	Major Street Fund	Local Street Fund	Act 302 Training
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental			
Federal	16,041	-	-
State	281,223	105,017	887
Local	-	-	-
Charges for services	-	-	-
Interest	1,593	1,292	22
Donations	-	-	-
Other	-	-	682
	<u>298,857</u>	<u>106,309</u>	<u>1,591</u>
TOTAL REVENUES	298,857	106,309	1,591
EXPENDITURES			
Current			
Public safety	-	-	2,428
Public works	235,878	155,896	-
Recreation and culture	-	-	-
Other	-	-	-
Debt service			
Principal retirement	15,000	-	-
Interest and other charges	8,930	-	-
Capital outlay	-	-	-
	<u>259,808</u>	<u>155,896</u>	<u>2,428</u>
TOTAL EXPENDITURES	259,808	155,896	2,428
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	39,049	(49,587)	(837)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	56,000	-
Transfers out	(56,000)	-	-
	<u>(56,000)</u>	<u>56,000</u>	<u>-0-</u>
TOTAL OTHER FINANCING SOURCES	(56,000)	56,000	-0-
NET CHANGE IN FUND BALANCES	(16,951)	6,413	(837)
Fund balances, beginning of year	<u>508,750</u>	<u>399,451</u>	<u>6,721</u>
Fund balances, end of year	<u>\$ 491,799</u>	<u>\$ 405,864</u>	<u>\$ 5,884</u>

Revenue Funds

Parks and Recreation	Building Department	Drug Law Enforcement	MSHDA CDBG	Dog Park
\$ 90,912	\$ -	\$ -	\$ -	\$ -
-	-	-	16,670	-
-	-	-	-	-
8,000	-	-	-	-
5,037	57,817	75	-	-
417	13	5	-	-
-	-	-	-	-
21,400	50	-	-	-
125,766	57,880	80	16,670	-0-
-	77,686	-	-	-
-	-	-	-	-
125,479	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
125,479	77,686	-0-	-0-	-0-
287	(19,806)	80	16,670	-0-
15,000	15,553	-	-	-
-	-	-	-	-
15,000	15,553	-0-	-0-	-0-
15,287	(4,253)	80	16,670	-0-
69,689	4,257	1,329	-	25
<u>\$ 84,976</u>	<u>\$ 4</u>	<u>\$ 1,409</u>	<u>\$ 16,670</u>	<u>\$ 25</u>

City of Eaton Rapids

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - CONTINUED

Year Ended June 30, 2014

	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent</u>
	<u>Building Authority Debt</u>	<u>Capital Project</u>	<u>Cemetery Perpetual Care</u>
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental			
Federal	-	-	-
State	-	-	-
Local	-	-	-
Charges for services	-	-	-
Interest	-	-	-
Donations	-	-	-
Other	-	14,000	599
	<u>-</u>	<u>14,000</u>	<u>599</u>
TOTAL REVENUES	-0-	14,000	599
EXPENDITURES			
Current			
Public safety	-	-	-
Public works	-	-	-
Recreation and culture	-	-	-
Other	-	-	-
Debt service			
Principal retirement	190,000	-	-
Interest and other charges	81,876	-	-
Capital outlay	-	12,772	-
	<u>-</u>	<u>12,772</u>	<u>-</u>
TOTAL EXPENDITURES	271,876	12,772	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(271,876)	1,228	599
OTHER FINANCING SOURCES (USES)			
Transfers in	277,076	-	-
Transfers out	-	-	(10,000)
	<u>-</u>	<u>-</u>	<u>(10,000)</u>
TOTAL OTHER FINANCING SOURCES	277,076	-0-	(10,000)
NET CHANGE IN FUND BALANCES	5,200	1,228	(9,401)
Fund balances, beginning of year	-	-	115,828
Fund balances, end of year	<u>\$ 5,200</u>	<u>\$ 1,228</u>	<u>\$ 106,427</u>

<u>Funds</u>	
<u>Friends of the Island</u>	<u>Total</u>
\$ -	\$ 90,912
-	32,711
-	387,127
-	8,000
-	62,929
-	3,342
2,668	2,668
-	36,731
<u>2,668</u>	<u>624,420</u>
-	80,114
-	391,774
-	125,479
1,498	1,498
-	205,000
-	90,806
-	12,772
<u>1,498</u>	<u>907,443</u>
1,170	(283,023)
-	363,629
-	(66,000)
<u>-0-</u>	<u>297,629</u>
1,170	14,606
<u>26,437</u>	<u>1,132,487</u>
<u>\$ 27,607</u>	<u>\$ 1,147,093</u>

City of Eaton Rapids

Utility Fund

REVENUES AND EXPENSES

Year Ended June 30, 2014

	<u>Electric Department</u>	<u>Water Department</u>	<u>Sewage Department</u>	<u>Total</u>
REVENUES				
Charges for services	\$ 8,122,247	\$ 873,275	\$ 1,032,739	\$ 10,028,261
Fines and forfeitures	35,859	-	-	35,859
Other revenue	163,680	6,421	3,918	174,019
TOTAL REVENUES	8,321,786	879,696	1,036,657	10,238,139
OPERATING EXPENSES				
	7,795,019	784,471	1,070,427	9,649,917
DEPRECIATION	281,242	263,717	515,286	1,060,245
TOTAL OPERATING EXPENSES	8,076,261	1,048,188	1,585,713	10,710,162
OPERATING GAIN / (LOSS)	245,525	(168,492)	(549,056)	(472,023)
NONOPERATING REVENUES (EXPENSES)				
Property taxes	-	-	578,230	578,230
Interest expense and fees on bonds	-	(16,917)	(194,313)	(211,230)
Interest income on investments	10,286	357	1,339	11,982
TOTAL NONOPERATING REVENUES (EXPENSES)	10,286	(16,560)	385,256	378,982
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	255,811	(185,052)	(163,800)	(93,041)
OPERATING TRANSFERS				
Transfers out	(277,076)	(83,794)	-	(360,870)
NET GAIN / (LOSS)	\$ (21,265)	\$ (268,846)	\$ (163,800)	\$ (453,911)

City of Eaton Rapids

Utility Fund

EXPENSE BREAKDOWN

Year Ended June 30, 2014

	<u>Electric Department</u>	<u>Water Department</u>	<u>Sewage Department</u>	<u>Total</u>
OPERATING EXPENSES				
Personal services	\$ 512,392	\$ 210,182	\$ 375,363	\$ 1,097,937
Contractual services	51,497	52,227	22,813	126,537
Supplies	19,466	9,787	13,618	42,871
Materials	77,472	38,289	34,801	150,562
Utilities	784	46,332	180,531	227,647
Telephone	5,463	3,666	3,152	12,281
Insurance	9,429	11,408	14,472	35,309
Maintenance	6,640,077	44,840	62,816	6,747,733
Benefit payments	464,269	358,770	352,026	1,175,065
Other expense	14,170	8,970	10,835	33,975
TOTAL OPERATING EXPENSES	<u>\$ 7,795,019</u>	<u>\$ 784,471</u>	<u>\$ 1,070,427</u>	<u>\$ 9,649,917</u>

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2014

	Public Employee Benefit	Motor Pool Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 44,968	\$ 162,797	\$ 207,765
Investments	34,062	123,313	157,375
Prepays	33,151	-	33,151
Total current assets	112,181	286,110	398,291
Noncurrent assets			
Investments	31,550	114,221	145,771
Capital assets, net of accumulated depreciation	-	814,292	814,292
Total noncurrent assets	31,550	928,513	960,063
TOTAL ASSETS	143,731	1,214,623	1,358,354
LIABILITIES			
Current liabilities			
Accrued interest payable	-	6,492	6,492
Current portion of long-term debt	-	26,791	26,791
Total current liabilities	-0-	33,283	33,283
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	242,663	242,663
TOTAL LIABILITIES	-0-	275,946	275,946
NET POSITION			
Net investment in capital assets	-	544,838	544,838
Unrestricted	143,731	393,839	537,570
TOTAL NET POSITION	\$ 143,731	\$ 938,677	\$ 1,082,408

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION

Year Ended June 30, 2014

	Public Employee Benefit	Motor Pool Fund	Total
OPERATING REVENUES			
Charges for services	\$ 791,736	\$ -	\$ 791,736
Other revenue	79,166	-	79,166
TOTAL OPERATING REVENUES	870,902	-0-	870,902
OPERATING EXPENSES			
Depreciation	-	124,521	124,521
Benefit payments	795,712	-	795,712
TOTAL OPERATING EXPENSES	795,712	124,521	920,233
OPERATING INCOME (LOSS)	75,190	(124,521)	(49,331)
NONOPERATING (EXPENSES)			
Interest expense	-	(12,165)	(12,165)
INCOME (LOSS) BEFORE TRANSFERS	75,190	(136,686)	(61,496)
TRANSFERS			
Transfers in	-	118,005	118,005
CHANGE IN NET ASSETS	75,190	(18,681)	56,509
Net position, beginning of year	68,541	957,358	1,025,899
Net position, end of year	<u>\$ 143,731</u>	<u>\$ 938,677</u>	<u>\$ 1,082,408</u>

City of Eaton Rapids

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Public Employee Benefit	Motor Pool Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from interfund services	\$ 798,837	\$ -	\$ 798,837
Cash received from miscellaneous	79,166	-	79,166
Cash paid to suppliers	<u>(795,712)</u>	<u>36</u>	<u>(795,676)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 82,291	 36	 82,327
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	118,005	118,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest paid	-	(5,673)	(5,673)
Payment on capital lease	-	(37,586)	(37,586)
Purchase of capital assets	<u>-</u>	<u>(25,422)</u>	<u>(25,422)</u>
 NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 -0-	 (68,681)	 (68,681)
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of investments	-	35,371	35,371
Purchase of investments	<u>(43,615)</u>	<u>-</u>	<u>(43,615)</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 <u>(43,615)</u>	 <u>35,371</u>	 <u>(8,244)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 38,676	 84,731	 123,407
Cash and cash equivalents, beginning of year	<u>6,292</u>	<u>78,066</u>	<u>84,358</u>
Cash and cash equivalents, end of year	<u>\$ 44,968</u>	<u>\$ 162,797</u>	<u>\$ 207,765</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 75,190	\$ (124,521)	\$ (49,331)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	-	124,521	124,521
Changes in assets and liabilities:			
Prepays	<u>7,101</u>	<u>36</u>	<u>7,137</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 82,291</u>	 <u>\$ 36</u>	 <u>\$ 82,327</u>

City of Eaton Rapids

Component Unit Fund

BALANCE SHEET - LDFA ISLAND INDUSTRIAL PARK

June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 1,044,076
Investments	<u>1,332,187</u>
TOTAL ASSETS	<u>\$ 2,376,263</u>
LIABILITIES	
Accounts payable	\$ 6,136
Accrued payroll	<u>2,141</u>
TOTAL LIABILITIES	8,277
FUND BALANCE	
Unassigned	<u>2,367,986</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,376,263</u>

City of Eaton Rapids

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION - LDFA ISLAND INDUSTRIAL PARK

June 30, 2014

Fund balance - governmental fund \$ 2,367,986

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,320,092	
Accumulated depreciation is	<u>(76,502)</u>	
Capital assets, net		2,243,590

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Accrued interest payable	(9,650)	
Long-term debt	(2,500,000)	
Other post-employment obligation	<u>(95,354)</u>	
		<u>(2,605,004)</u>
Net position of governmental activities		<u><u>\$ 2,006,572</u></u>

City of Eaton Rapids

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - LDFA ISLAND INDUSTRIAL PARK

Year Ended June 30, 2014

REVENUES	
Property taxes	\$ 325,286
Interest	<u>8,423</u>
TOTAL REVENUES	333,709
EXPENDITURES	
Current	
Community and economic development	230,373
Debt service	
Principal	90,000
Interest	<u>119,225</u>
TOTAL EXPENDITURES	<u>439,598</u>
NET CHANGE IN FUND BALANCE	(105,889)
Fund balance, beginning of year	<u>2,473,875</u>
Fund balance, end of year	<u><u>\$ 2,367,986</u></u>

City of Eaton Rapids

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES - LDFA ISLAND INDUSTRIAL PARK

Year Ended June 30, 2014

Net change in fund balance - governmental fund \$ (105,889)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (76,502)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Debt principal retirement 90,000

Some items reported in the statement of activities do not result in the use of current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:

(Increase) in net other post-employment benefit obligation \$ (16,774)
Decrease in accrued interest payable 285

(16,489)

Change in net position of governmental activities \$ (108,880)

City of Eaton Rapids

Component Unit Fund

BALANCE SHEET - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 187,302
Investments	273,290
Prepays	973
Inventories	<u>75,448</u>
TOTAL ASSETS	<u>\$ 537,013</u>
LIABILITIES	
Accounts payable	\$ 6,907
Accrued wages	<u>71</u>
TOTAL LIABILITIES	6,978
FUND BALANCE	
Nonspendable	76,421
Unassigned	<u>453,614</u>
TOTAL FUND BALANCE	<u>530,035</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 537,013</u>

City of Eaton Rapids

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2014

Fund balance - governmental fund \$ 530,035

Amounts reported for governmental activities in the statement of net position are different

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is 611,257

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:

Accrued interest payable	\$ (2,243)
Long-term debt	<u>(580,000)</u>

(582,243)

Net position of governmental activities **\$ 559,049**

City of Eaton Rapids

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2014

REVENUES	
Property taxes	\$ 128,187
Interest	1,794
Other	<u>3,800</u>
TOTAL REVENUES	133,781
EXPENDITURES	
Current	
Community and economic development	126,439
Debt service	
Principal	25,000
Interest	<u>27,920</u>
TOTAL EXPENDITURES	<u>179,359</u>
NET CHANGE IN FUND BALANCE	(45,578)
Fund balance, beginning of year	<u>575,613</u>
Fund balance, end of year	<u><u>\$ 530,035</u></u>

City of Eaton Rapids

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES - TIFA I DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2014

Net change in fund balance - governmental fund \$ (45,578)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay 65,670

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Debt principal retirement 25,000

Some items reported in the statement of activities do not result in the use of current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:

Decrease in accrued interest payable 84

Change in net position of governmental activities \$ 45,176

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

To the Honorable Mayor and
Members of the City Council
City of Eaton Rapids, Michigan

In planning and performing our audit of 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 Eaton Rapids, Michigan, as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the following deficiencies in internal control to be material weaknesses:

BANK RECONCILIATIONS

During the course of our audit we noted that monthly bank reconciliations were not being completed on a timely basis and compared with the cash balance reflected in the City's computerized accounting records. The completion of bank reconciliations are considered control and monitoring activities and are essential to sound internal control.

We recommend all bank accounts be reconciled to the computerized accounting records on a monthly basis and reviewed and approved by an individual that is independent of the reconciliation process. The review should be documented with the reviewer's initials and date and be retained for audit purposes.

MATERIAL JOURNAL ENTRIES

Material journal entries for the proper recognition of cash and cash equivalents, amounts due from other governmental units, capital asset activity, accounts payable, accrued wages, and long-term debt activity were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger.

MATERIAL JOURNAL ENTRIES - CONTINUED

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles.

We recommend the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, standards, and contracts, 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 the following instance of noncompliance:

UNFAVORABLE BUDGET VARIANCES

As noted in the financial statements, certain expenditures of the General Fund and one Special Revenue Fund exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the City adopt a formal budget for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the City monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This communication is intended solely for the information and use of the City Council and management of the City of Eaton Rapids, and the applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 15, 2014