

**City of Flat Rock,
Michigan**

Financial Statements

June 30, 2017

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City of Flat Rock, Michigan
List of Elected Officials
June 30, 2017

Officials and City Council

Jonathan Dropiewski – Mayor

John Bergeron – Mayor Pro-Tem

Jim Martin – Councilman

Kenneth Wrobel – Councilman

Dawn Thomas – Councilwoman

Wally Little – Councilman

Ricky Tefend – Councilman



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Independent Auditors' Report

Mayor and City Council
City of Flat Rock, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Flat Rock, Michigan as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, each major fund, and the aggregate remaining fund information, of the City of Flat Rock, Michigan as of June 30, 2017, 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, other post-employment benefits schedules, and Michigan Employees Retirement System schedules as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flat Rock, Michigan's basic financial statements. The 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 other supplementary information, as identified in the table of contents, is the responsibility of management and, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017 on our consideration of the City of Flat Rock, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Flat Rock, Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Flat Rock, Michigan's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Ann Arbor, MI

December 15, 2017

Our discussion and analysis of the City of Flat Rock, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements.

Financial Highlights

- The City's total assets and deferred outflows of resources decreased by \$273,178 (or 0.6%). The governmental total assets decreased by \$1,028,745 (or 3.1%) and the business-type total assets increased by \$755,567 (or 5.0%).
- Total net position of \$8,051,556 reflects an increase of \$955,761 from last fiscal year which represents an increase in pension liability and other post-employment obligations of \$1,126,816 offset by a decrease of other liabilities and debts of \$2,082,577.
- At the end of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,914,399, an increase of \$894,442.
- At the end of the current fiscal year the fund balance for the General Fund increased \$340,381 to a final balance of \$1,548,454.

Overview of the Financial Statements

This discussion and analysis is an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

The financial statement's focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and fund) allow users to address relevant questions, broaden a basis for comparison (interperiod or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements which further explains and supports the information presented in these statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances. The statement of net position and the statement of activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, better off or worse off as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The focus of the statement of net position is designed to be similar to the bottom line results for the City and its governmental and business-type activities. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations

(total economic resources). This statement presents all of the City's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in net position may indicate whether the City's financial position is improving or deteriorating. However, in order to assess the overall health of the City, non-financial factors such as the City's property tax base and condition of the City's infrastructure may also need to be considered.

The statement of activities is focused on both the gross and net cost of the various activities (governmental, business-type, and component unit) which are supported by the City's general tax and other revenues. This presentation is intended to summarize and simplify the user's analysis of the cost of the various governmental services and/or the subsidy to various business-type activities and/or component units. This statement shows how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both statements report two activities:

1. *Governmental Activities:* Most of the City's basic services (i.e., police, fire, public works, parks, etc.) are reported under this category. Taxes and intergovernmental revenues generally fund these services. The City's governmental activities include general government, police, fire, building and safety, public works, recreation and culture, library, community enrichment and development, road maintenance and repair and tax refund.
2. *Business-type Activities:* The City charges fees to customers to help cover all or most of the cost of certain services it provides. The City operates one business-type activity that reflects private sector type operations: Water and Sewer service.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. These statements provide more detailed information about the City's most significant funds (Major Funds), not the city as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to maintain control over resources that have been segregated for specific activities or objectives. In addition to major funds, the City presents individual fund data for non-major funds in the supplementary information section. All of the funds of the City can be divided in three categories: governmental, proprietary, and fiduciary. Each category uses different accounting approaches.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund statements are presented on a modified accrual basis, which focuses on the near-term sources and use of available resources. This is the manner in which the budget is typically developed. The City establishes Funds for various purposes, and the Fund Financial Statements allow the demonstration of sources and uses and/or budgetary compliance associated therewith. Governmental Funds include the General Fund, special revenue funds, capital project funds, and debt service funds.

The focus of governmental funds (current financial resources) is narrower than that of the government-wide financial statements (total economic resources). Therefore, the reader may better understand the long-term impact of the City's near-term financing decision by comparing information presented for governmental

funds with the information presented for the governmental activities in the government-wide financial statements. Both the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

Proprietary Funds:

Proprietary funds are used to account for services provided by the City where the City charges customers (whether external or internal) for the services it provides. These funds use accrual accounting; the same method used by private sector businesses. The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer service.

Fiduciary Funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. While these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. Therefore, these assets are not reflected in the government-wide financial statements. The City acts as a trustee or fiduciary for its employee deferred compensation plan. It is a trustee/agent for the other governmental units for which it collects tax payments. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in a separate statement of assets and liabilities. These funds are reported using accrual accounting.

Notes to Basic Financial Statements

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

Additional Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Non-Major Governmental Funds

Following the required supplementary information are combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

Financial Analysis of the Government as a Whole

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the City's case, assets exceeded its liabilities at the end of the fiscal year by \$7,095,795. However, all of the City's net position represents its investment in capital assets (e.g., land, roads, storm sewers, water and sewer systems, building, and equipment) less any related debt used to acquire or construct these assets that is still outstanding. The City uses these capital assets to provide essential services to citizens; therefore, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources because the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 4,818,262	\$ 4,543,565	\$ 3,750,849	\$ 2,912,553	\$ 8,569,111	\$ 7,456,118
Capital assets	25,416,439	26,499,708	11,803,832	11,864,786	37,220,271	38,364,494
Total assets	30,234,701	31,043,273	15,554,681	14,777,339	45,789,382	45,820,612
Deferred Outflows of Resources						
Deferred Charges	1,423,965	1,644,138	204,523	226,298	1,628,488	1,870,436
Total assets and deferred outflows	31,658,666	32,687,411	15,759,204	15,003,637	47,417,870	47,691,048
Liabilities						
Current	980,591	1,627,788	262,277	326,328	1,242,868	1,954,116
Noncurrent	32,477,662	33,327,787	5,450,057	5,303,778	37,927,719	38,631,565
Total liabilities	33,458,253	34,955,575	5,712,334	5,630,106	39,170,587	40,585,681
Deferred Inflows of Resources						
Deferred inflows	171,638	-	24,089	9,572	195,727	9,572
Total liabilities and deferred inflows	33,629,891	34,955,575	5,736,423	5,639,678	39,366,314	40,595,253
Net Position						
Net investment in capital assets	12,997,092	12,758,978	8,142,740	8,334,052	21,139,832	21,093,030
Restricted	2,420,040	1,869,350	-	-	2,420,040	1,869,350
Unrestricted	(17,388,357)	(16,896,492)	1,880,041	1,029,907	(15,508,316)	(15,866,585)
Total net position	\$ (1,971,225)	\$ (2,268,164)	\$ 10,022,781	\$ 9,363,959	\$ 8,051,556	\$ 7,095,795

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenue:						
Charges for services	\$ 3,267,061	\$ 2,948,553	\$ 4,633,987	\$ 4,807,570	\$ 7,901,048	\$ 7,756,123
Operating grants and contributions	3,815,309	1,582,346	-	-	3,815,309	1,582,346
General revenues:						
Property taxes	5,954,794	7,856,157	-	-	5,954,794	7,856,157
State-shared revenue	925,638	882,990	-	-	925,638	882,990
Investment and rent earnings	12,395	11,853	5,022	3,116	17,417	14,969
Miscellaneous	220,195	331,595	-	-	220,195	331,595
Total revenues	<u>14,195,392</u>	<u>13,613,494</u>	<u>4,639,009</u>	<u>4,810,686</u>	<u>18,834,401</u>	<u>18,424,180</u>
Expenses						
General government	2,075,317	1,600,232	-	-	2,075,317	1,600,232
Public safety	4,714,405	4,484,692	-	-	4,714,405	4,484,692
Public works	2,175,404	2,434,884	-	-	2,175,404	2,434,884
Community and economic development	1,557,847	1,678,611	-	-	1,557,847	1,678,611
Recreation and cultural	2,825,353	3,536,916	-	-	2,825,353	3,536,916
Water and sewer	-	-	3,950,252	4,072,119	3,950,252	4,072,119
Interest on long-term debt	580,062	659,890	-	-	580,062	659,890
Total expenses	<u>13,928,388</u>	<u>14,395,225</u>	<u>3,950,252</u>	<u>4,072,119</u>	<u>17,878,640</u>	<u>18,467,344</u>
Excess revenues over (under) expenses before transfers	267,004	(781,731)	688,757	738,567	955,761	(43,164)
Transfers	<u>29,935</u>	<u>31,864</u>	<u>(29,935)</u>	<u>(31,864)</u>	<u>-</u>	<u>-</u>
Change in net position	296,939	(749,867)	658,822	706,703	955,761	(43,164)
Net position (deficit), beginning of year	<u>(2,268,164)</u>	<u>(1,518,297)</u>	<u>9,363,959</u>	<u>8,657,256</u>	<u>7,095,795</u>	<u>7,138,959</u>
Net position (deficit), end of year	<u>\$ (1,971,225)</u>	<u>\$ (2,268,164)</u>	<u>\$ 10,022,781</u>	<u>\$ 9,363,959</u>	<u>\$ 8,051,556</u>	<u>\$ 7,095,795</u>

Governmental Activities

Governmental activities change in net position increased \$296,939 from (\$2,268,164) to (\$1,971,225). This includes an increase in pension liability and other post-employment obligations of \$1,126,816 offset by a decrease of other liabilities and debts of \$2,082,577.

Business-Type Activities

Business-type activities increased the City's net assets by \$658,822 relating to operating activities.

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year realized a fund balance was \$1,548,454 or 20.5% of general fund expenditures. Total fund balance increased by \$340,381, during the fiscal year.

Tax Increment Finance Authority

The Tax Increment Finance Authority has a fund balance of \$888,967, which is an increase of \$457,866 from the 2015-16 fiscal year.

Community Center

The Community Center Fund has a fund balance of \$36,374, which is an increase of \$7,163 due to operating activities.

Nonmajor Governmental Funds

Nonmajor Governmental Funds had a total fund balance of \$1,440,604, a total increase of \$89,032 from the prior fiscal year which includes a \$241,141 decrease in Capital Project fund balance due to construction and a \$172,151 increase in Local Roads fund due to transfers from the General Fund.

Capital Assets and Debt Administration

Capital Assets

The City investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$37,220,271 (net of accumulated depreciation). This investment includes a broad range of capital assets, which are detailed in the table below. The total increase in the City's capital assets for the current fiscal year was \$1,144,223, mainly due to current year depreciation in excess of purchases. The following table is a comparison of the City's net capital assets as of June 30, 2016 compared to June 30, 2017:

Net Capital Assets at Year End
(in thousands of dollars)

	2017			2016		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Land	\$ 1,563	\$ -	\$ 1,563	\$ 1,563	\$ -	\$ 1,563
Construction in progress	-	-	-	284	-	284
Infrastructure	6,436	-	6,436	7,045	-	7,045
Buildings and Improvements, net	15,868	4,075	19,943	15,863	4,188	20,051
Machinery and meters, net	1,319	153	1,472	1,523	277	1,800
Water and sewer mains, net	-	7,532	-	-	7,341	7,341
Vehicles, net	230	44	274	222	59	281
Capital assets, net	\$ 25,416	\$ 11,804	\$ 37,220	\$ 26,500	\$ 11,865	\$ 38,365

Additional information regarding the City's capital assets can be located in Note 6 of the notes to the financial statements.

Long-Term Debt

At the end of the fiscal year, the City had total long-term bonds and notes outstanding of \$17,640,624.

Outstanding Debt at Year End

	Governmental Activities	Business Type Activities	Total
Bonds and note	\$ 12,493,028	\$ 3,394,468	\$ 15,887,496
Claims and judgements	653,800	-	653,800
Other	751,539	347,789	1,099,328
	<u>\$ 13,898,367</u>	<u>\$ 3,742,257</u>	<u>\$ 17,640,624</u>

State statutes limit the amount of general obligation debt the City can issue to 10% of its total state equalized assessed value of property. The City's total general obligation debt (\$17,239,968) is lower than the current state-imposed limit of \$32,536,706.

Economic Condition and Outlook

The City of Flat Rock's budget for year ending June 30, 2017 is not recommending any changes to the millages but a water and sewer rate increase of \$0.50 per 1,000 gallons.

The City's 2018 budgeted revenue consists of 63.3% tax revenues, 26.0% local sources and 10.7% from other sources. The City's tax base is projected to have an increase of \$4,529,457. Local revenues are projected to decrease by \$21,115 for the fiscal year ended June 30, 2017. The new personal property tax legislation, which began in the 2013-14 fiscal year, may have a negative impact on the City's future fiscal health.

The City's General Fund expenditures are allocated 51.0% to public safety, police, fire, building and safety. The department of public services amounts to 24.2% and the general operations, which include the clerk's and treasurer's departments, total 19.8% and other areas total 5.0%. In addition, it is recommended that expenditures will increase by \$287,530 from the previous year's budget, which can be attributed to additional employment costs. The General Fund is projecting the fund balance to remain the same, which will project a General Fund balance of \$1,548,454 or 19.7% of the General Fund budget.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to the following:

City of Flat Rock
25500 Gibraltar Road
Flat Rock, Michigan 48134-1399

City of Flat Rock, Michigan
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,092,772	\$ 3,097,211	\$ 7,189,983
Receivables			
Taxes	18,009	-	18,009
Customers	-	588,840	588,840
Accrued interest and other	369	-	369
Due from other units of government	660,885	340	661,225
Internal balances	(39,521)	39,521	-
Inventories	12,889	20,572	33,461
Prepaid items	72,859	4,365	77,224
Capital assets not being depreciated	1,563,255	-	1,563,255
Capital assets, net of accumulated depreciation	<u>23,853,184</u>	<u>11,803,832</u>	<u>35,657,016</u>
Total assets	30,234,701	15,554,681	45,789,382
Deferred outflows of resources			
Deferred amount relating to net pension liability	<u>1,423,965</u>	<u>204,523</u>	<u>1,628,488</u>
Total assets and deferred outflows of resources	<u>31,658,666</u>	<u>15,759,204</u>	<u>47,417,870</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 199,314	\$ 117,735	\$ 317,049
Accrued and other liabilities	518,937	144,542	663,479
Due to other units of government	262,340	-	262,340
Noncurrent liabilities			
Debt due within one year	1,751,731	725,825	2,477,556
Debt due in more than one year	12,063,608	3,016,432	15,080,040
Net other post employment benefit obligations	6,861,732	-	6,861,732
Net pension liability	11,717,563	1,707,800	13,425,363
Total liabilities	<u>33,375,225</u>	<u>5,712,334</u>	<u>39,087,559</u>
Deferred inflows of resources			
Deferred amount on net pension liability	171,638	16,975	188,613
Deferred amount related to bond refunding	-	7,114	7,114
Total deferred inflows of resources	<u>171,638</u>	<u>24,089</u>	<u>195,727</u>
Total liabilities and deferred inflows of resources	<u>33,546,863</u>	<u>5,736,423</u>	<u>39,283,286</u>
Net position			
Net investment in capital assets	13,080,120	8,142,740	21,222,860
Restricted for			
TIFA	888,967	-	888,967
Streets	380,686	-	380,686
Downtown development authority	377,872	-	377,872
Historical district	198,007	-	198,007
Library	230,836	-	230,836
Capital projects	331,815	-	331,815
Other special revenue projects	9,107	-	9,107
Debt service	2,750	-	2,750
Unrestricted (deficit)	<u>(17,382,251)</u>	<u>1,880,041</u>	<u>(15,502,210)</u>
Total net position	<u>\$ (1,882,091)</u>	<u>\$ 10,022,781</u>	<u>\$ 8,140,690</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Statement of Activities
For the Year Ended June 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government						
Governmental activities						
General government	\$ 2,075,317	\$ 67,788	\$ 3,117,619	\$ 1,110,090	\$ -	\$ 1,110,090
Public safety	4,714,405	1,267,840	10,723	(3,435,842)	-	(3,435,842)
Public works	2,175,404	388,968	674,673	(1,111,763)	-	(1,111,763)
Community and economic development	1,557,847	3,714	-	(1,554,133)	-	(1,554,133)
Recreation and culture	2,825,353	1,538,751	12,294	(1,274,308)	-	(1,274,308)
Interest on long-term debt	580,062	-	-	(580,062)	-	(580,062)
Total governmental activities	13,928,388	3,267,061	3,815,309	(6,846,018)	-	(6,846,018)
Business-type activities						
Water and sewer	3,950,252	4,633,987	-	-	683,735	683,735
Total primary government	<u>\$ 17,878,640</u>	<u>\$ 7,901,048</u>	<u>\$ 3,815,309</u>	<u>(6,846,018)</u>	<u>683,735</u>	<u>(6,162,283)</u>
General revenues						
Property taxes				5,954,794	-	5,954,794
State shared revenue				925,638	-	925,638
Unrestricted investment earnings				12,395	5,022	17,417
Gain on sale of capital assets				31,736	-	31,736
Miscellaneous				188,459	-	188,459
Transfers				29,935	(29,935)	-
Total general revenues and transfers				<u>7,142,957</u>	<u>(24,913)</u>	<u>7,118,044</u>
Change in net position				296,939	658,822	955,761
Net position - beginning of year				<u>(2,179,030)</u>	<u>9,363,959</u>	<u>7,184,929</u>
Net position - end of year				<u>\$ (1,882,091)</u>	<u>\$ 10,022,781</u>	<u>\$ 8,140,690</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Balance Sheet
June 30, 2017

		Special Revenue Funds			
	General	Tax Incremental Financing Authority	Community Center	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,301,744	\$ 1,143,079	\$ 301,473	\$ 1,346,476	\$ 4,092,772
Receivables					
Taxes	16,441	-	-	1,568	18,009
Accrued interest and other	369	-	-	-	369
Due from other units of government	368,053	-	2,410	290,422	660,885
Due from other funds	65,793	-	-	63,407	129,200
Inventories	12,889	-	-	-	12,889
Prepaid items	47,015	-	14,453	11,391	72,859
Total assets	<u>\$ 1,812,304</u>	<u>\$ 1,143,079</u>	<u>\$ 318,336</u>	<u>\$ 1,713,264</u>	<u>\$ 4,986,983</u>
Liabilities					
Accounts payable	\$ 128,101	\$ 11,819	\$ 11,834	\$ 47,560	\$ 199,314
Accrued and other liabilities	76,059	-	270,128	5,553	351,740
Due to other funds	39,979	1,164	-	127,578	168,721
Due to other units of government	19,711	241,129	-	1,500	262,340
Total liabilities	<u>263,850</u>	<u>254,112</u>	<u>281,962</u>	<u>182,191</u>	<u>982,115</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Balance Sheet
June 30, 2017

	Special Revenue Funds			
	General	Tax Incremental Financing Authority	Community Center	Nonmajor Governmental Funds
				Total Governmental Funds
Deferred inflows of resources				
Grants	\$ -	\$ -	\$ -	\$ 90,469
Fund balances				
Non-spendable				
Inventories	12,889	-	-	-
Prepaid items	47,015	-	14,453	11,391
Restricted for				
TIFA	-	888,967	-	-
Streets	-	-	-	372,182
Downtown development authority	-	-	-	377,872
Historical district	-	-	-	197,945
Library	-	-	-	230,761
Capital projects	-	-	-	331,815
Other special revenue projects	-	-	-	9,107
Community center	-	-	21,921	-
Unassigned (deficit)	1,488,550	-	-	(90,469)
Total fund balances	1,548,454	888,967	36,374	1,440,604
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,812,304	\$ 1,143,079	\$ 318,336	\$ 1,713,264

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Total fund balances for governmental funds	\$ 3,914,399
Total net position for governmental activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	23,853,184
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	1,563,255
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	90,469
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(167,197)
Compensated absences	(493,405)
Claims and judgments	(653,800)
Net other post employment obligation	(6,861,732)
Deferred outflows (inflows) of resources	
Deferred outflow of resources from resulting from net pension liability	1,423,965
Deferred inflows of resources resulting from net pension liability	(171,638)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Bonds payable	(12,585,106)
Bond premium	(83,028)
Net pension liability	<u>(11,717,563)</u>
Net position of governmental activities	<u>\$ (1,888,197)</u>

City of Flat Rock, Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General	Special Revenue Funds		Nonmajor Governmental Funds	Total Governmental Funds
		Tax Incremental Financing Authority	Community Center		
Revenues					
Taxes	\$ 4,591,675	\$ 1,096,690	\$ -	\$ 975,383	\$ 6,663,748
Licenses and permits	274,160	-	-	-	274,160
Federal grants	2,369	-	-	65,815	68,184
State shared revenue	897,224	-	-	680,004	1,577,228
Other state grants	1,422,901	1,282,266	1,382,548	432,848	4,520,563
Local contributions	12,925	-	22,873	-	35,798
Charges for services	426,353	-	-	-	426,353
Fines and forfeitures	545,736	-	-	-	545,736
Interest income	8,670	1,052	302	2,371	12,395
Rental income	167,063	-	94	-	167,157
Other revenue	536,539	-	1,951	42,798	581,288
Total revenues	<u>8,885,615</u>	<u>2,380,008</u>	<u>1,407,768</u>	<u>2,199,219</u>	<u>14,872,610</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

		Special Revenue Funds			
	General	Tax Increment Financing Authority	Community Center	Nonmajor Governmental Funds	Total Governmental Funds
Expenditures					
Current					
General government	\$ 1,832,599	\$ -	\$ -	\$ -	\$ 1,832,599
Public safety	3,861,057	-	-	-	3,861,057
Public works	1,496,146	-	-	533,272	2,029,418
Community and economic development	23,190	118,224	-	551,792	693,206
Recreation and culture	158,951	-	1,625,605	-	1,784,556
Library	-	-	-	361,966	361,966
Capital outlay	159,081	-	-	518,345	677,426
Debt service					
Principal retirement	30,829	-	-	1,450,000	1,480,829
Interest and fiscal charges	7,276	-	-	602,552	609,828
Total expenditures	<u>7,569,129</u>	<u>118,224</u>	<u>1,625,605</u>	<u>4,017,927</u>	<u>13,330,885</u>
Excess (deficiency) of revenues over expenditures	<u>1,316,486</u>	<u>2,261,784</u>	<u>(217,837)</u>	<u>(1,818,708)</u>	<u>1,541,725</u>
Other financing sources (uses)					
Transfers in	-	-	225,000	2,653,459	2,878,459
Transfers out	(1,007,841)	(1,094,964)	-	(745,719)	(2,848,524)
Tax refunds	-	(708,954)	-	-	(708,954)
Proceeds from sale of fixed assets	31,736	-	-	-	31,736
Total other financing sources (uses)	<u>(976,105)</u>	<u>(1,803,918)</u>	<u>225,000</u>	<u>1,907,740</u>	<u>(647,283)</u>
Net change in fund balance	340,381	457,866	7,163	89,032	894,442
Fund balance - beginning of year	<u>1,208,073</u>	<u>431,101</u>	<u>29,211</u>	<u>1,351,572</u>	<u>3,019,957</u>
Fund balance - end of year	<u>\$ 1,548,454</u>	<u>\$ 888,967</u>	<u>\$ 36,374</u>	<u>\$ 1,440,604</u>	<u>\$ 3,914,399</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - Total governmental funds	\$ 894,442
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Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(1,607,955)
Capital outlay	524,686

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Grants	3,792
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Expenses are recorded when incurred in the statement of activities.

Accrued interest	23,660
Compensated absences	58,329
Claims and judgments	141,952
Net other post employment obligation	(654,617)

The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions

Net change in net pension liability	(258,063)
Net change in the deferred outflow of resources related to the net pension liability	(220,173)
Net change in the deferred inflow of resources related to the net pension liability	(171,638)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Repayments of long-term debt	1,550,312
Amortization of premiums	6,106

Change in net position of governmental activities	<u>\$ 290,833</u>
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See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Funds
Statement of Net Position
June 30, 2017

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 3,097,211
Receivables	
Customers	588,840
Due from other units of government	340
Due from other funds	39,521
Inventories	20,572
Prepaid items	4,365
Total current assets	<u>3,750,849</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>11,803,832</u>
Total assets	15,554,681
Deferred outflows of resources	
Deferred amount of pension expense related to net pension liability	<u>204,523</u>
Total assets and deferred outflows of resources	<u>15,759,204</u>
Liabilities	
Current liabilities	
Accounts payable	117,735
Accrued and other liabilities	144,542
Current portion of noncurrent liabilities	<u>725,825</u>
Total current liabilities	<u>988,102</u>
Noncurrent liabilities	
Net pension liability	1,707,800
Long-term debt net of current portion	<u>3,016,432</u>
Total noncurrent liabilities	<u>4,724,232</u>
Total liabilities	<u>5,712,334</u>
Deferred inflows of resources	
Deferred amount of net pension liability	16,975
Deferred amount related to bond refunding	<u>7,114</u>
Total deferred inflows of resources	<u>24,089</u>
Total liabilities and deferred inflows of resources	<u>5,736,423</u>
Net position	
Net investment in capital assets	8,142,740
Unrestricted	<u>1,880,041</u>
Total net position	<u>\$ 10,022,781</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

	<u>Enterprise Fund</u> <u>Water and Sewer</u>
Operating revenue	
Customer fees	\$ 4,506,371
Connection fees	28,146
Other revenue	<u>99,470</u>
Total operating revenue	<u>4,633,987</u>
Operating expenses	
Personnel services	592,853
Supplies	19,159
Contractual services	200,674
Utilities	4,038
Repairs and maintenance	187,883
Other expenses	2,230,067
Depreciation	<u>614,561</u>
Total operating expenses	<u>3,849,235</u>
Operating income	<u>784,752</u>
Nonoperating revenue (expenses)	
Interest income	5,022
Interest expense	<u>(101,017)</u>
Total nonoperating revenue (expenses)	<u>(95,995)</u>
Income before transfers out	688,757
Transfers out	<u>(29,935)</u>
Change in net position	658,822
Net position - beginning of year	<u>9,363,959</u>
Net position - end of year	<u><u>\$ 10,022,781</u></u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2017

	<u>Enterprise Fund</u> Water and Sewer
Cash flows from operating activities	
Receipts from customers	\$ 4,702,833
Receipts from other funds	22,484
Payments to suppliers	(2,659,042)
Payments to employees	<u>(585,480)</u>
Net cash provided by operating activities	<u>1,480,795</u>
Cash flows from noncapital financing activities	
Transfers to other funds	<u>(29,935)</u>
Cash flows from capital and related financing activities	
Proceeds from capital debt	685,213
Purchases/construction of capital assets	(553,607)
Principal and interest paid on long-term debt	<u>(658,330)</u>
Net cash used by capital and related financing activities	<u>(526,724)</u>
Cash flows from investing activities	
Interest received	<u>5,022</u>
Net change in cash and cash equivalents	929,158
Cash and cash equivalents - beginning of year	<u>2,168,053</u>
Cash and cash equivalents - end of year	<u><u>\$ 3,097,211</u></u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2017

	<u>Enterprise Fund</u> Water and Sewer
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 784,752
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation expense	614,561
Noncash portion related to net pension liability	25,523
Changes in assets and liabilities	
Receivables (net)	69,186
Due from other units of government	(340)
Due from other funds	22,484
Prepaid items	(468)
Deferred outflows	21,775
Accounts payable	(104,813)
Accrued and other liabilities	40,762
Compensated absences	(9,602)
Deferred inflows	<u>16,975</u>
Net cash provided by operating activities	<u>\$ 1,480,795</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	<u>Trust and Agency</u>
Assets	
Cash and cash equivalents	<u>\$ 201,722</u>
Liabilities	
Due to other governments	<u>\$ 201,722</u>

See Accompanying Notes to the Financial Statements

The City of Flat Rock, Michigan

Notes to the Financial Statements

June 30, 2017

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Flat Rock, Michigan (the "City") operates as a Home Rule City under the laws of the State of Michigan. The City is governed by an elected Mayor and a six-member Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations.

Blended Component Units

The City of Flat Rock Building Authority (the "Authority") is a separate legal entity from the City. The Authority is reported as if it were a part of the primary government because its sole purpose is to finance and construct the City's public buildings. The intended purpose is the acquisition, furnishing, equipping, owning, improving, enlarging, operating, and maintaining a building or buildings, automobile parking lots or structures, recreational facilities, stadiums and the necessary site or sites thereof, together with appurtenant properties and facilities necessary or convenient use thereof, for use for any legitimate public purpose of the City.

The Downtown Development Authority (the "Authority") was created under Act No. 197 of the Michigan State statutes to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic development within the downtown district. In addition, the Authority budget is subject to approval by City Council. Funding for the Authority is provided from the increased property tax revenues from any benefited property.

The Tax Increment Finance Authority (the "Authority") was created under Act No. 450 of the Michigan State statutes with the purpose to bolster the declining value of the lands located within the district. The Authority has a targeted development area which will be developed and ultimately lead to increasing the values of the properties located within the targeted area. Funding for the Authority is provided by capturing the increased property tax revenues from the increase in valuations of

the benefited properties. In addition, the Authority's budget is subject to approval by the City Council.

Joint Ventures

The City is a member of the 33rd District Court (the "Court"), which provides judicial services to the member communities. The City appoints one member to the joint venture's governing board, who then approves the annual budget. The Court receives its operating revenue principally from fines and fees, in addition to annual funding contributions from member communities. During the current year, the City contributed \$295,191 to the Court, representing the City's share of the Court's net activity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating communities in the near future, other than the fluctuation of caseloads, which impacts the City's share of the Court debt. Complete financial statements for the Court can be obtained from the administrative offices at: 19000 Van Horn Road, Woodhaven, MI 48183.

The City is a member of the South Huron Valley Utility Authority, which provides sanitary sewage disposal services. Each of the eight member communities appoints one member to the Board. The Authority receives its operating revenue through charges to the communities. The City's share of the debt of the joint venture is being financed by the City through debt service charges. During the year ended June 30, 2017, the City incurred net operating costs of \$901,467. In addition, the City paid \$489,310 in principal payments and \$83,427 in interest expense. Complete financial statements for the Authority can be obtained from the administrative offices at 34001 West Jefferson, Brownstown, MI 48173.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported

The City of Flat Rock, Michigan

Notes to the Financial Statements

June 30, 2017

separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the

government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Tax Increment Finance Authority (TIFA) is treated as a special revenue fund and is used to develop and increase the value of properties located within the targeted area. The refunds are distributed to the original taxing entity.

The Community Center Fund is treated as a special revenue fund and is used to account for the operations of the community center.

The City reports the following major proprietary funds:

The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

The City of Flat Rock, Michigan

Notes to the Financial Statements

June 30, 2017

Additionally, the City reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The capital project fund accounts for the construction of major capital facilities and City infrastructure other than those financed by proprietary and trust funds.

The debt service funds account for the accumulation of resources for, and payment of, governmental activities principal, interest, and related costs.

The fiduciary funds account for assets held by the City in a trustee capacity. Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in

connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Position or Equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that is representative of a lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds”. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts of \$17,170. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2016 taxable valuation of the government totaled \$287,156,637, on which ad valorem taxes consisted of 16.00 mills for operating purposes. This resulted in \$3,669,005 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. Approximately 14.82% of the City's property tax revenue is from one company located in the City of Flat Rock.

The City of Flat Rock, Michigan

Notes to the Financial Statements

June 30, 2017

The City has considered the impact of GASB Statement No. 77, Tax Abatement Disclosures, and determined that there are no significant abatements that reduce property tax revenues.

Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the City follows the consumption method, and they therefore are capitalized as prepaid items in both entity-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Roads and infrastructure	10 to 30 years
Water and sewer mains	50 years
Buildings	50 years
Vehicles	5 to 12 years
Equipment and meters	7 to 30 years

Deferred outflows of resources – A deferred outflow of resources is a

consumption of net position by the government that is applicable to a future reporting period. The City reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. The City also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in the following year. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan.

Compensated absences – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. The City reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan

The City of Flat Rock, Michigan

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actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. In addition, the City reports deferred inflows of resources for deferred gains on bond refunding. A deferred gain results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is amortized using the shorter of the life of the refunded or refunding debt.

Pensions and other postemployment benefit (OPEB) costs – The City offers both pension and retiree healthcare benefits to retirees. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS fiduciary net position have been determined on the same basis as they are reported to the systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The City receives actuarial-based calculations to compute the annual required contributions (ARC) necessary to fund the obligations over the remaining amortization periods. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contributions, adjusted for interest and “adjustment to the ARC” on the beginning of the year underpaid amount, if any.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the government’s highest level of decision-making, its City Council. A fund balance commitment may be established, modified, or rescinded by a resolution of the City Council.

Assigned – amounts intended to be used for specific purposes, as determined by City Council or by an official or body to which the City Council delegates the authority. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government’s policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the City’s policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and

The City of Flat Rock, Michigan
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expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Upcoming Accounting and Reporting Changes

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a

beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The City is evaluating the impact that the above GASBs will have on its financial reporting.

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Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to July 1st, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1st. Public hearings are scheduled to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1st.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of Expenditures Over Appropriations

	<u>Appropriations</u>	<u>Actual</u>	<u>Budget Variance</u>
General Fund			
Public safety	\$ 3,801,419	\$ 3,861,057	\$ 59,638
Public works	1,483,200	1,496,146	12,946

Note 3 - Deposits and Investments

At year end the government's deposits and investments were reported in the financial statements in the following categories:

	<u>Cash and Cash Equivalents</u>
Governmental activities	\$ 4,092,772
Business-type activities	<u>3,097,211</u>
Total primary government	7,189,983
Fiduciary funds	<u>201,722</u>
Total	<u><u>\$ 7,391,705</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$6,971,826	\$ 201,722	\$7,173,548
Investments in securities, mutual funds and similar vehicles	216,957	-	216,957
Petty cash and cash on hand	<u>1,200</u>	<u>-</u>	<u>1,200</u>
	<u><u>\$7,189,983</u></u>	<u><u>\$ 201,722</u></u>	<u><u>\$7,391,705</u></u>

The City of Flat Rock, Michigan
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As of yearend, the government had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Organization</u>
Fifth Third Government Money Market	<u>\$ 216,957</u>	AAAmmf	Fitch

Credit risk – State statutes and the City’s investment policy authorize the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The City has no policy that would limit the amount that may be invested in any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the City’s deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of yearend, \$83,893 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Note 4 - Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2017:

- Equity mutual funds of \$333,893 are valued using quoted market prices (Level 1 inputs).

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Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,563,255	\$ -	\$ -	\$ 1,563,255
Construction-in-progress	283,564	-	283,564	-
Total capital assets not being depreciated	<u>1,846,819</u>	<u>-</u>	<u>283,564</u>	<u>1,563,255</u>
Capital assets being depreciated				
Infrastructure	27,872,966	168,926	-	28,041,892
Buildings, additions and improvements	23,344,103	510,095	-	23,854,198
Machinery and equipment	5,940,049	41,200	-	5,981,249
Vehicles	1,089,047	88,029	-	1,177,076
Total capital assets being depreciated	<u>58,246,165</u>	<u>808,250</u>	<u>-</u>	<u>59,054,415</u>
Less accumulated depreciation for				
Infrastructure	20,827,720	778,723	-	21,606,443
Buildings, additions and improvements	7,481,363	504,775	-	7,986,138
Machinery and equipment	4,416,872	244,914	-	4,661,786
Vehicles	867,321	79,543	-	946,864
Total accumulated depreciation	<u>33,593,276</u>	<u>1,607,955</u>	<u>-</u>	<u>35,201,231</u>
Net capital assets being depreciated	<u>24,652,889</u>	<u>(799,705)</u>	<u>-</u>	<u>23,853,184</u>
Governmental activities capital assets, net	<u>\$ 26,499,708</u>	<u>\$ (799,705)</u>	<u>\$ 283,564</u>	<u>\$ 25,416,439</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Buildings, additions and improvements	\$ 6,516,962	\$ -	\$ -	\$ 6,516,962
Machinery and equipment	996,731	-	-	996,731
Vehicles	374,987	-	-	374,987
Water and sewer system	18,633,506	553,607	-	19,187,113
Total capital assets being depreciated	<u>26,522,186</u>	<u>553,607</u>	<u>-</u>	<u>27,075,793</u>
Less accumulated depreciation for				
Buildings, additions and improvements	2,328,800	113,673	-	2,442,473
Machinery and equipment	719,758	124,025	-	843,783
Vehicles	316,095	14,699	-	330,794
Water and sewer system	11,292,747	362,164	-	11,654,911
Total accumulated depreciation	<u>14,657,400</u>	<u>614,561</u>	<u>-</u>	<u>15,271,961</u>
Net capital assets being depreciated	<u>11,864,786</u>	<u>(60,954)</u>	<u>-</u>	<u>11,803,832</u>
Business-type capital assets, net	<u>\$ 11,864,786</u>	<u>\$ (60,954)</u>	<u>\$ -</u>	<u>\$ 11,803,832</u>

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

Governmental Activities

General government	\$ 49,666
Public safety	185,532
Public works	85,024
Recreation and culture	497,803
Other functions	<u>789,930</u>
Total governmental activities	<u>1,607,955</u>

Business-type Activities

Water and Sewer	<u>614,561</u>
Total primary government	<u>\$ 2,222,516</u>

The City of Flat Rock, Michigan
Notes to the Financial Statements
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Note 6 - Capital Leases

The City has various capital leases for equipment. The future minimum lease payments are as follows:

Year ending June 30,	Governmental Funds				Enterprise Fund
	Sweeper	Dump Truck	Copiers	Total	Vactor
2018	\$ 39,924	\$ 41,772	\$ 1,320	\$ 83,016	\$174,510
2019	39,924	41,772	1,320	83,016	-
2020	-	-	1,156	1,156	-
Total minimum lease payments	79,848	83,544	3,796	167,188	174,510
Less amount representing interest	3,715	3,712	267	7,694	6,356
Present value of minimum lease payments	<u>\$ 76,133</u>	<u>\$ 79,832</u>	<u>\$ 3,529</u>	<u>\$159,494</u>	<u>\$168,154</u>
Equipment	\$ 187,492	\$ 197,781	\$ 8,459	\$393,732	\$450,363
Less accumulated depreciation	<u>80,355</u>	<u>84,762</u>	<u>5,076</u>	<u>170,193</u>	<u>397,918</u>
Total	<u>\$ 107,137</u>	<u>\$ 113,019</u>	<u>\$ 3,383</u>	<u>\$223,539</u>	<u>\$ 52,445</u>

Note 7 - Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Funds	\$ 64,629
General Fund	TIFA Fund	1,164
Nonmajor Funds	General Fund	39,979
Nonmajor Funds	Nonmajor Funds	23,428
Water/Sewer	Nonmajor Funds	39,521
		<u>\$ 168,721</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General Fund	Community Center Fund	\$ 225,000
General Fund	Nonmajor Funds	782,841
Nonmajor funds	Nonmajor Funds	745,719
TIFA Fund	Nonmajor Funds	1,094,964
Water/Sewer	Nonmajor Funds	29,935
		<u>\$ 2,878,459</u>

Transfers are used to move unrestricted General Fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. TIFA transfers were to refund taxes back to the originating entity. Transfers from Water/Sewer and Nonmajor Funds to other Nonmajor funds were reimbursements made in accordance with budgetary authorizations.

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Note 8 - Long-Term Debt

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City. Claims and judgements are payments resulting from prior Michigan tax tribunal settlements. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, and the Water and Sewer Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
Building Authority Bond, Series 2004	\$ 1,720,000	9/1/18	4.40%	\$155,000	\$ 305,000	\$ -	\$ 150,000	\$ 155,000	\$ 155,000
Building Authority Bond, Series 2006	3,415,000	8/1/21	4.00% - 4.60%	\$345,000 - \$395,000	1,815,000	-	335,000	1,480,000	345,000
Tax Increment Finance Authority - Limited Tax Development Bonds Series 2006A	4,270,000	10/1/24	6.95%	\$270,000 - \$405,000	2,590,000	-	255,000	2,335,000	270,000
Tax Increment Finance Authority - Limited Tax Development Bonds Series 2006B	5,675,000	10/1/24	4.50% - 4.80%	\$330,000 - \$380,000	2,800,000	-	320,000	2,480,000	330,000
Capital Improvement Bonds - 2010 Limited Tax General Obligation	2,500,000	8/1/25	3.75% - 5.00%	\$170,000 - \$250,000	1,820,000	-	160,000	1,660,000	170,000
Tax Increment Finance Authority - 2015 Limited Tax Development Bonds	1,750,000	10/1/26	2.00% - 3.00%	\$105,000 - \$245,000	1,130,000	-	105,000	1,025,000	105,000
Capital Improvement Bonds - 2015 Limited Tax General Obligation	2,500,000	8/1/25	2.13% - 4.00%	\$125,000 - \$250,000	3,400,000	-	125,000	3,275,000	125,000
Total bonds and notes payable					13,860,000	-	1,450,000	12,410,000	1,500,000
Premium on bond issues					89,134	-	6,106	83,028	-
Installment purchase agreement - ambulance	164,011	10/1/19	3.20%	\$31,837 - \$33,933	129,469	-	30,829	98,640	31,837
Claims and judgments									
Auto Alliance, Inc. - Refundable 2009 Personal Property Tax	559,630	8/31/21	N/A	\$55,963	279,815	-	55,963	223,852	55,963
Auto Alliance, Inc. - Refundable 2009 - 2011 Real Property Tax	859,887	10/31/22	N/A	\$85,989	515,937	-	85,989	429,948	85,989
Total claims and judgements					795,752	-	141,952	653,800	141,952

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	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities - continued									
Other									
Compensated absences	N/A	N/A	N/A	N/A	\$ 551,734	\$ -	\$ 58,329	\$ 493,405	\$ -
Capital lease - sweeper	\$ 187,492	2/2/19	3.19%	\$37,460 - \$38,673	112,419	-	36,286	76,133	37,460
Capital lease - dump truck	195,374	5/8/19	3.08%	\$39,310 - \$40,522	117,965	-	38,133	79,832	39,310
Capital lease - copier	5,852	5/29/20	4.84%	\$1,127 - \$1,230	4,699	-	1,170	3,529	1,172
Total other					<u>786,817</u>	<u>-</u>	<u>133,918</u>	<u>652,899</u>	<u>77,942</u>
Total governmental activities					<u>\$ 15,572,038</u>	<u>\$ -</u>	<u>\$ 1,756,699</u>	<u>\$ 13,815,339</u>	<u>\$ 1,751,731</u>
Business-type activities									
Bonds and notes payable									
General obligation bonds									
South Huron Valley Utility Authority - Sewer System Plant Acquisition Bonds	3,271,516	10/1/21	2.25%	\$184,995 - \$198,163	\$ 946,746	\$ -	\$ 180,692	\$ 766,054	\$ 184,995
South Huron Valley Utility Authority - 2004 Sewer System Plant Expansion	2,352,760	4/1/26	2.13%	\$119,935 - \$142,900	1,300,142	-	117,383	1,182,759	119,935
South Huron Valley Utility Authority - 2010 Sewer System Improvements	409,360	5/1/30	4.00%	\$17,910 - \$34,538	331,326	-	17,910	313,416	17,910
South Huron Valley Utility Authority - 2011 Sewer System Improvements	557,073	4/1/31	2.50%	\$25,245 - \$35,439	443,471	-	24,305	419,166	25,245
South Huron Valley Utility Authority - 2014 Sewer System Improvements	448,602	4/1/29	1.78%	\$89,696 - \$89,720	269,149	-	89,733	179,416	89,720
South Huron Valley Utility Authority - 2016 Sewer System Improvements	592,954	11/1/26	2.75%	\$59,295 - \$59,297	-	592,954	59,297	533,657	59,295
Total bonds and notes payable					<u>3,290,834</u>	<u>592,954</u>	<u>489,320</u>	<u>3,394,468</u>	<u>497,100</u>
Other									
Biodeck note	92,259	4/1/19	N/A	\$23,065 - \$46,129	-	92,259	23,065	69,194	46,129
Capital lease - 2012 Vactor	311,938	10/19/18	3.78%	\$168,154	196,639	-	28,485	168,154	168,154
Equipment purchase agreement - 2014 backhoe	69,832	10/8/18	3.35%	\$14,442 - \$14,834	43,261	-	13,985	29,276	14,442
Compensated absences	N/A	N/A	N/A	N/A	90,767	-	9,602	81,165	-
Total other					<u>330,667</u>	<u>92,259</u>	<u>75,137</u>	<u>347,789</u>	<u>182,596</u>
Total business-type activities					<u>\$ 3,621,501</u>	<u>\$ 685,213</u>	<u>\$ 564,457</u>	<u>\$ 3,742,257</u>	<u>\$ 725,825</u>

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Annual debt service requirements to maturity for the bonds and notes payable, and installment purchase agreement are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 1,531,837	\$ 543,281	\$ 497,100	\$ 74,197
2019	1,322,870	477,256	506,050	64,029
2020	1,598,933	409,181	425,325	53,626
2021	1,430,000	337,900	434,999	44,608
2022	1,295,000	263,128	238,951	37,583
2023 - 2027	3,555,000	582,024	1,061,364	112,743
2028 - 2032	1,050,000	234,931	230,679	20,995
2033 - 2035	<u>725,000</u>	<u>41,715</u>	<u>-</u>	<u>-</u>
	<u>\$12,508,640</u>	<u>\$2,889,416</u>	<u>\$3,394,468</u>	<u>\$ 407,781</u>

Deferred Amount of Debt Refunding

The City issued bonds in 2015 to advance refund and retire previously issued term bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. This amount is reported in the accompanying statement of net position as a deferred inflow of resources and is being charged to activities through the fiscal year.

Deferred amount on refunding activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Less deferred amounts				
on defeasance	<u>\$ 9,572</u>	<u>\$ -</u>	<u>\$ 2,458</u>	<u>\$ 7,114</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers'

compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Employee Retirement and Benefit Systems

Defined Benefit Pension Plan

Plan description – The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The plan was established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Benefits provided – Benefits provided include plans with multipliers ranging from 1.3% to 2.5%. Vesting periods are 10 years. Normal retirement age is 60 with early retirement at 50 with 25 years of service for police personnel and department heads employed prior to September 2011. Final average compensation is calculated based on 3 to 5 years. Member contributions range from 3% to 5%.

Employees covered by benefit terms – At the December 31, 2016 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries	
currently receiving benefits	56
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>55</u>
	<u>117</u>

The City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2017

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions range from 5.77% to 59.25% based on annual payroll for open divisions. Divisions that are closed to new employees have an annual employer contribution amount of 5.77% to 59.25%.

Net pension liability – The employer's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: 1) Inflation 2.5%; 2) Salary increases 3.75% in the long-term; 3) Investment rate of return of 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 3-4%.

Mortality rates used were based on a 50% male and 50% female blend of the following tables: the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disable plan members is a 50% male and 50% female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	57.5%	5.02%
Global fixed income	20.0%	2.18%
Real assets	12.5%	4.23%
Diversifying strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plans fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2017

Changes in the net pension liability during the measurement year were as follows:

	<u>2017</u>
Total Pension Liability	
Service cost	\$ 300,883
Interest on the total pension liability	1,877,792
Experience differences	251,255
Other charges	(3,362)
Benefit payments and refunds	<u>(1,584,281)</u>
Net change in total pension liability	842,287
Total pension liability - beginning	<u>24,114,104</u>
Total pension liability - ending (a)	<u>24,956,391</u>
Plan Fiduciary Net Position	
Employer contributions	794,184
Employee contributions	161,653
Pension plan net investment gain	1,211,087
Benefit payments and refunds	(1,584,281)
Pension plan administrative expense	<u>(23,942)</u>
Net change in plan fiduciary net position	558,701
Plan fiduciary net position - beginning	<u>10,972,327</u>
Plan fiduciary net position - ending (b)	<u>11,531,028</u>
Net pension liability (a-b)	<u>\$ 13,425,363</u>
Plan fiduciary net position as a percentage of total pension liability	46.20%
Covered employee payroll	\$ 3,210,773
Net pension liability as a percentage of covered employee payroll	418.13%

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 8%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (7%) or 1% higher (9%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total pension liability	\$ 27,595,445	\$ 24,956,391	\$ 22,711,077
Fiduciary net position	<u>11,531,028</u>	<u>11,531,028</u>	<u>11,531,028</u>
Net pension liability	<u>\$ 16,064,417</u>	<u>\$ 13,425,363</u>	<u>\$ 11,180,049</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended June 30, 2017, the employer recognized pension expense of \$1,607,121. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>	<u>Total to Amortize</u>
Differences in experience	\$ 188,441	\$ (188,613)	\$ (172)	\$ (172)
Differences in assumptions	532,448	-	532,448	532,448
Excess (deficit) investment returns	445,648	-	445,648	445,648
Contributions subsequent to the measurement date*	<u>461,951</u>	<u>-</u>	<u>461,951</u>	<u>-</u>
Total	<u>\$ 1,628,488</u>	<u>\$ (188,613)</u>	<u>\$ 1,439,875</u>	<u>\$ 977,924</u>

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

The City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2017

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	\$ 421,211
2019	421,210
2020	207,383
2021	<u>(71,880)</u>
	<u>\$ 977,924</u>

Note 11 - Deferred Compensation Plan

The City Council offers all government employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust by Nationwide Retirement Solutions, John Hancock and Prudential Securities.

Note 12 - Other Postemployment Benefits

Plan description – The City provides postemployment health, dental and vision benefits to all eligible full-time retired employees and their beneficiaries hired prior to September 2011. The City pays the full cost of coverage for these benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant (other than specific co-pays). The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Currently 32 retirees are eligible for post-employment health benefits. The City obtains health care coverage through private insurers.

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The Plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the employer.

Funding policy – The collective bargaining agreements do not require a contribution from employees. Retiree health care costs are recognized when paid by the City on a “pay-as-you-go” basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment.

Funding progress – For the year ended June 30, 2017, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2015. The valuation 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 amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

This valuation’s computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 1,292,869
Interest on the prior year's net OPEB obligation	245,744
Less adjustment to annual required contribution	<u>(408,779)</u>
 Annual OPEB cost	 1,129,834
 Amounts contributed	
Payments of current premiums	<u>475,217</u>
 Increase in net OPEB obligation	 654,617
 OPEB obligation - beginning of year	 <u>6,207,115</u>
 OPEB obligation - end of year	 <u>\$ 6,861,732</u>

The City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2017

The schedule of employer contributions and the net OPEB obligations for the fiscal year ended June 30, 2017, 2016, and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB costs	\$ 1,129,834	\$ 1,097,488	\$ 1,065,667
Percentage contributed	42.061%	43.300%	42.639%
Net OPEB obligations	6,861,732	6,207,115	5,568,714

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2015:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	14,388,666
Unfunded AAL	14,388,666
Funded ratio	0%

Actuarial methods and assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates 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 the 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 employer and the 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.

In the June 30, 2015 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on plan assets, and an annual healthcare cost trend for medical and drug costs of 7.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after three years, with an annual healthcare cost trend rate for dental and vision costs of 4.0 percent, which remains unchanged. Both rates included a 4.0 percent inflation assumption. The UAAL is being amortized as a level percent of payroll if the divisions are open to new hires and as a level dollar if the divisions are closed to new hires.

Note 13 - Contingent Liabilities

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 amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes				
Property taxes	\$ 5,276,900	\$ 5,200,700	\$ 4,565,131	\$ (635,569)
Penalties and interest	30,000	30,000	26,544	(3,456)
Licenses and permits	179,600	252,200	274,160	21,960
Federal grants	-	-	2,369	2,369
State shared revenue	864,200	853,800	897,224	43,424
State grants	333,200	1,031,500	1,422,901	391,401
Local contributions	12,500	12,500	12,925	425
Charges for services	308,200	388,000	426,353	38,353
Fines and forfeitures	376,000	565,700	545,736	(19,964)
Interest income	6,000	6,000	8,670	2,670
Rental income	160,000	163,100	167,063	3,963
Other revenue	500,200	485,700	536,539	50,839
Sale of fixed assets	31,500	31,500	31,736	236
	<u>8,078,300</u>	<u>9,020,700</u>	<u>8,917,351</u>	<u>(103,349)</u>
Total revenues				
Expenditures				
General government				
Legislative	27,300	16,100	16,602	502
Judicial	430,000	434,300	366,925	(67,375)
Clerk	293,600	317,493	186,280	(131,213)
Treasurer	352,500	365,700	175,473	(190,227)
Assessor	53,100	82,000	82,314	314
Elections	58,800	41,100	39,875	(1,225)
Buildings and safety	340,500	369,629	373,129	3,500
Attorney	72,000	144,000	115,861	(28,139)
General operations	484,700	518,653	476,140	(42,513)
	<u>2,112,500</u>	<u>2,288,975</u>	<u>1,832,599</u>	<u>(456,376)</u>
Total general government				

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Public safety				
Police department	\$ 2,619,200	\$ 2,673,519	\$ 2,733,103	\$ 59,584
Fire department	1,022,600	1,127,900	1,127,954	54
Total public safety	3,641,800	3,801,419	3,861,057	59,638
Public works				
Department of public works	1,343,200	1,483,200	1,496,146	12,946
Community and economic development				
Planning	11,050	11,050	11,866	816
Zoning	22,350	22,350	11,324	(11,026)
Total community and economic development	33,400	33,400	23,190	(10,210)
Recreation and culture				
Parks and recreation	140,000	166,800	158,951	(7,849)
Capital outlay	124,500	200,900	159,081	(41,819)
Debt service				
Principal retirement	30,900	30,900	30,829	(71)
Interest and fiscal charges	7,300	7,300	7,276	(24)
Total debt service	38,200	38,200	38,105	(95)
Transfers out	644,700	1,012,100	1,007,841	(4,259)
Total expenditures	8,078,300	9,024,994	8,576,970	(448,024)
Excess (deficiency) of revenues over expenditures	-	(4,294)	340,381	344,675
Fund balance - beginning of year	1,208,073	1,208,073	1,208,073	-
Fund balance - end of year	\$ 1,208,073	\$ 1,203,779	\$ 1,548,454	\$ 344,675

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
Tax Increment Finance Authority
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes	\$ 1,175,800	\$ 1,096,600	\$ 1,096,690	\$ 90
Other state grants	2,096,800	1,282,200	1,282,266	66
Interest income	1,200	1,200	1,052	(148)
Total revenues	<u>3,273,800</u>	<u>2,380,000</u>	<u>2,380,008</u>	<u>8</u>
Expenditures				
Current				
Community and economic development	<u>142,300</u>	<u>122,300</u>	<u>118,224</u>	<u>(4,076)</u>
Other financing sources (uses)				
Tax refunds	(1,993,000)	(709,000)	(708,954)	46
Transfers out	<u>(1,343,800)</u>	<u>(1,093,800)</u>	<u>(1,094,964)</u>	<u>(1,164)</u>
Total other financing sources (uses)	<u>(3,336,800)</u>	<u>(1,802,800)</u>	<u>(1,803,918)</u>	<u>(1,118)</u>
Total expenditures	<u>3,479,100</u>	<u>1,925,100</u>	<u>1,922,142</u>	<u>(2,958)</u>
Excess (deficiency) of revenues over expenditures	(205,300)	454,900	457,866	2,966
Fund balance - beginning of year	<u>431,101</u>	<u>431,101</u>	<u>431,101</u>	<u>-</u>
Fund balance - end of year	<u>\$ 225,801</u>	<u>\$ 886,001</u>	<u>\$ 888,967</u>	<u>\$ 2,966</u>

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
Community Center
For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Charges for services	\$ 1,484,500	\$ 1,380,200	\$ 1,382,548	\$ 2,348
Other state grants	23,000	23,000	22,873	(127)
Interest income	200	200	302	102
Rental income	-	-	94	94
Other revenue	5,700	5,700	1,951	(3,749)
Total revenues	1,513,400	1,409,100	1,407,768	(1,332)
Expenditures				
Current				
Recreation and culture	1,613,400	1,634,100	1,625,605	(8,495)
Other financing sources (uses)				
Transfers in	125,000	225,000	225,000	-
Excess of revenues (deficiency) over expenditures	-	-	7,163	7,163
Fund balance - beginning of year	29,211	29,211	29,211	-
Fund balance - end of year	\$ 29,211	\$ 29,211	\$ 36,374	\$ 7,163

City of Flat Rock, Michigan
Required Supplementary Information
Other Post Employment Benefits
Schedule of Funding Progress
June 30, 2017

Valuation Date	Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b - a)	Funded Ratio (Percent) (a / b)
6/30/2009	\$ -	\$ 10,928,640	\$ 10,928,640	0%
6/30/2012	-	16,983,463	16,983,463	0%
6/30/2015	-	14,388,666	14,388,666	0%

City of Flat Rock, Michigan
Required Supplementary Information
Other Post Employment Benefits
Schedule of Employer Contributions
June 30, 2017

Year Ended	Annual Required Contribution	Actual Contribution	Percent Contributed
6/30/2010	\$ 1,004,402	\$ 323,594	32%
6/30/2011	1,035,327	378,969	37%
6/30/2012	1,439,431	423,107	29%
6/30/2013	1,502,499	452,256	30%
6/30/2014	1,580,603	423,292	27%
6/30/2015	1,180,007	454,387	39%
6/30/2016	1,235,246	459,087	37%
6/30/2017	1,292,869	475,217	37%

The information presented above was determined as part of the valuations at the date incurred. Additional information as of June 30, 2015, the latest actuarial valuation, follows:

Valuation cost method	Entry level
Amortization method	Level dollar
Amortization period	24 years
Asset valuation method	Not applicable
Valuation assumptions:	
Investment rate of return	4%

City of Flat Rock
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Employer Contributions
June 30, 2017

Actuarial Valuation Date	Annual Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
12/31/2007	\$ 578,568	\$ 578,568	\$ -	\$ 4,100,932	14.11%
12/31/2008	593,359	593,359	-	3,603,933	16.46%
12/31/2009	571,075	571,075	-	3,608,759	15.82%
12/31/2010	559,361	559,361	-	3,141,984	17.80%
12/31/2011	578,096	592,096	(14,000)	3,028,837	19.55%
12/31/2012	560,292	584,292	(24,000)	3,041,091	19.21%
12/31/2013	582,166	606,166	(24,000)	3,082,131	19.67%
12/31/2014	632,534	650,534	(18,000)	3,211,517	20.26%
12/31/2015	734,717	734,717	-	2,979,142	24.66%
12/31/2016	794,184	794,184	-	3,210,773	24.73%

Notes: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 6 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry-age
Amortization method	Level-dollar closed
Remaining amortization period	9-23 years
Asset valuation method	5-year smoothed value of assets
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
Mortality	RP-2014 Health Annuitant Mortality Tables - 50% male and 50% female blend
	RP-2014 Employee Mortality Tables - 50% male and 50% female blend
	RP-2014 Juvenile Mortality Tables - 50% male and 50% female blend
	RP-2014 Disabled Retiree Mortality Tables - 50% male and 50% female blend

City of Flat Rock
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2017

Fiscal year ended June 30,	2017	2016	2015
Total Pension Liability			
Service cost	\$ 300,883	\$ 305,961	\$ 349,449
Interest on the total pension liability	1,877,792	1,770,704	1,763,834
Experience differences	251,255	(377,225)	-
Changes in actuarial assumptions	-	1,064,893	-
Other charges	(3,362)	54,909	-
Benefit payments and refunds	<u>(1,584,281)</u>	<u>(1,371,920)</u>	<u>(1,303,169)</u>
Net change in total pension liability	842,287	1,447,322	810,114
Total pension liability - beginning	<u>24,114,104</u>	<u>22,666,782</u>	<u>21,856,668</u>
Total pension liability - ending (a)	<u>24,956,391</u>	<u>24,114,104</u>	<u>22,666,782</u>
Plan Fiduciary Net Position			
Employer contributions	794,184	681,482	650,534
Employee contributions	161,653	206,917	153,807
Pension plan net investment income (loss)	1,211,087	(170,469)	714,400
Benefit payments and refunds	(1,584,281)	(1,371,920)	(1,303,169)
Pension plan administrative expense	<u>(23,942)</u>	<u>(25,093)</u>	<u>(26,132)</u>
Net change in plan fiduciary net position	558,701	(679,083)	189,440
Plan fiduciary net position - beginning	<u>10,972,327</u>	<u>11,651,410</u>	<u>11,461,970</u>
Plan fiduciary net position - ending (b)	<u>11,531,028</u>	<u>10,972,327</u>	<u>11,651,410</u>
Net pension liability (a-b)	<u>\$ 13,425,363</u>	<u>\$ 13,141,777</u>	<u>\$ 11,015,372</u>
Plan fiduciary net position as a percentage of total pension liability	46.20%	45.50%	51.40%
Covered employee payroll	\$ 3,210,773	\$ 2,979,142	\$ 3,211,517
Net pension liability as a percentage of covered employee payroll	418.13%	441.13%	343.00%

*GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation.
Data will be added as information is available until 10 years of such data is available.

City of Flat Rock
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Employers' Net Pension Liability
June 30, 2017

<u>Fiscal Year Ending June 30,</u>	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>	<u>Plan Net Position as a % of Total Pension Liability</u>	<u>Covered Payroll</u>	<u>Net Pension Liability as a % of Covered Payroll</u>
2015	\$ 22,666,782	\$ 11,651,410	\$ 11,015,372	51.40%	\$ 3,211,517	343.00%
2016	24,114,104	10,972,327	13,141,777	45.50%	2,979,142	441.13%
2017	24,956,391	11,531,028	13,425,363	46.20%	3,210,773	418.13%

*GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation.
Data will be added as information is available until 10 years of such data is available.

City of Flat Rock, Michigan
Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds									Capital Projects Fund	Debt Service Funds						
	Block Grant Fund	Major Street Fund	Local Street Fund	Downtown Development Authority	Historical District Fund	Library Fund	Greenways	SAW Grant	Other Funds	2015 Construction	2010 Road Improvement	Building Authority	Building Authority Ballfield	2015 Construction	TIFA	Nonmajor Governmental Funds	
Assets																	
Cash and cash equivalents	\$ 1,500	\$ 59,542	\$ 194,941	\$ 337,893	\$ 197,044	\$ 212,684	\$ -	\$ -	\$ 9,107	\$ 333,765	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,346,476	
Receivables																	
Taxes	-	-	-	-	233	1,335	-	-	-	-	-	-	-	-	-	1,568	
Due from other units of government	-	93,712	36,161	-	1,521	20,424	64,629	73,975	-	-	-	-	-	-	-	290,422	
Due from other funds	-	-	23,428	39,979	-	-	-	-	-	-	-	-	-	-	-	63,407	
Prepaid items	-	4,252	4,252	-	62	75	-	-	-	-	-	750	-	500	1,500	11,391	
Total assets	<u>\$ 1,500</u>	<u>\$ 157,506</u>	<u>\$ 258,782</u>	<u>\$ 377,872</u>	<u>\$ 198,860</u>	<u>\$ 234,518</u>	<u>\$ 64,629</u>	<u>\$ 73,975</u>	<u>\$ 9,107</u>	<u>\$ 333,765</u>	<u>\$ -</u>	<u>\$ 750</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 1,500</u>	<u>\$ 1,713,264</u>	
Liabilities																	
Accounts payable	\$ -	\$ 150	\$ 9,795	\$ -	\$ 385	\$ 826	\$ -	\$ 34,454	\$ -	\$ 1,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,560	
Accrued and other liabilities	-	608	1,621	-	468	2,856	-	-	-	-	-	-	-	-	-	5,553	
Due to other funds	-	23,428	-	-	-	-	64,629	39,521	-	-	-	-	-	-	-	127,578	
Due to other units of government	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,500	
Total liabilities	<u>1,500</u>	<u>24,186</u>	<u>11,416</u>	<u>-</u>	<u>853</u>	<u>3,682</u>	<u>64,629</u>	<u>73,975</u>	<u>-</u>	<u>1,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,191</u>	
Deferred inflows of resources																	
Grants	-	-	-	-	-	-	64,629	25,840	-	-	-	-	-	-	-	90,469	
Fund balances																	
Non-spendable																	
Prepaid items	-	4,252	4,252	-	62	75	-	-	-	-	-	750	-	500	1,500	11,391	
Restricted for																	
Major street	-	129,068	-	-	-	-	-	-	-	-	-	-	-	-	-	129,068	
Local street	-	-	243,114	-	-	-	-	-	-	-	-	-	-	-	-	243,114	
Downtown development authority	-	-	-	377,872	-	-	-	-	-	-	-	-	-	-	-	377,872	
Historical district	-	-	-	-	197,945	-	-	-	-	-	-	-	-	-	-	197,945	
Library	-	-	-	-	-	230,761	-	-	-	-	-	-	-	-	-	230,761	
Capital projects	-	-	-	-	-	-	-	-	-	331,815	-	-	-	-	-	331,815	
Other special revenue projects	-	-	-	-	-	-	-	-	9,107	-	-	-	-	-	-	9,107	
Unassigned (deficit)	-	-	-	-	-	-	(64,629)	(25,840)	-	-	-	-	-	-	-	(90,469)	
Total fund balances (deficit)	<u>-</u>	<u>133,320</u>	<u>247,366</u>	<u>377,872</u>	<u>198,007</u>	<u>230,836</u>	<u>(64,629)</u>	<u>(25,840)</u>	<u>9,107</u>	<u>331,815</u>	<u>-</u>	<u>750</u>	<u>-</u>	<u>500</u>	<u>1,500</u>	<u>1,440,604</u>	
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,500</u>	<u>\$ 157,506</u>	<u>\$ 258,782</u>	<u>\$ 377,872</u>	<u>\$ 198,860</u>	<u>\$ 234,518</u>	<u>\$ 64,629</u>	<u>\$ 73,975</u>	<u>\$ 9,107</u>	<u>\$ 333,765</u>	<u>\$ -</u>	<u>\$ 750</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 1,500</u>	<u>\$ 1,713,264</u>	

City of Flat Rock, Michigan
Other Supplementary Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue Funds									Capital Projects Fund	Debt Service Funds					Total Nonmajor Governmental Funds
	Block Grant Fund	Major Street Fund	Local Street Fund	Downtown Development Authority	Historical District Fund	Library Fund	Greenways	SAW Grant	Other Funds	2015 Construction	2010 Road Improvement	Building Authority	Building Authority Ballfield	2015 Construction	TIFA	
Revenues																
Taxes	\$ -	\$ -	\$ -	\$ 538,395	\$ 62,657	\$ 374,331	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 975,383
Federal grants	62,536	-	-	-	-	-	-	-	3,279	-	-	-	-	-	-	65,815
State shared revenue	-	484,455	186,939	-	-	8,610	-	-	-	-	-	-	-	-	-	680,004
Other state grants	-	-	-	49,031	37,818	151,226	-	194,773	-	-	-	-	-	-	-	432,848
Interest income	-	85	-	870	330	397	-	-	10	679	-	-	-	-	-	2,371
Other revenue	-	-	-	2,900	3,000	36,084	-	-	814	-	-	-	-	-	-	42,798
Total revenues	62,536	484,540	186,939	591,196	103,805	570,648	-	194,773	4,103	679	-	-	-	-	-	2,199,219
Expenditures																
Current																
Public works	-	193,506	339,766	-	-	-	-	-	-	-	-	-	-	-	-	533,272
Community and economic development	14,511	-	-	473,372	63,909	-	-	-	-	-	-	-	-	-	-	551,792
Library	-	-	-	-	-	361,966	-	-	-	-	-	-	-	-	-	361,966
Capital outlay	48,025	-	-	-	-	-	-	228,500	-	241,820	-	-	-	-	-	518,345
Debt service																
Principal retirement	-	-	-	-	-	-	-	-	-	-	160,000	150,000	335,000	125,000	680,000	1,450,000
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	79,610	10,851	75,013	113,437	323,641	602,552
Total expenditures	62,536	193,506	339,766	473,372	63,909	361,966	-	228,500	-	241,820	239,610	160,851	410,013	238,437	1,003,641	4,017,927
Excess (deficiency) of revenues over expenditures	-	291,034	(152,827)	117,824	39,896	208,682	-	(33,727)	4,103	(241,141)	(239,610)	(160,851)	(410,013)	(238,437)	(1,003,641)	(1,818,708)
Other financing sources (uses)																
Transfers in	-	147,109	421,113	-	-	-	-	29,935	-	-	239,610	161,601	410,013	238,937	1,005,141	2,653,459
Transfers out	-	(431,297)	(95,535)	(57,286)	-	(161,601)	-	-	-	-	-	-	-	-	-	(745,719)
Total other financing sources (uses)	-	(284,188)	325,578	(57,286)	-	(161,601)	-	29,935	-	-	239,610	161,601	410,013	238,937	1,005,141	1,907,740
Net change in fund balance	-	6,846	172,751	60,538	39,896	47,081	-	(3,792)	4,103	(241,141)	-	750	-	500	1,500	89,032
Fund balance (deficit) - beginning of year	-	126,474	74,615	317,334	158,111	183,755	(64,629)	(22,048)	5,004	572,956	-	-	-	-	-	1,351,572
Fund balance (deficit) - end of year	\$ -	\$ 133,320	\$ 247,366	\$ 377,872	\$ 198,007	\$ 230,836	\$ (64,629)	\$ (25,840)	\$ 9,107	\$ 331,815	\$ -	\$ 750	\$ -	\$ 500	\$ 1,500	\$ 1,440,604

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2017

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities					
Bonds and notes payable					
Building Authority Bond, Series 2014	9/1/2017	\$ 155,000	\$ 3,410	\$ -	\$ 158,410
Date of issue January 2004					
amount of issue \$1,720,000					
Interest due September 1 and March 1					
Building Authority Bond, Series 2006	8/1/2017	\$ 345,000	\$ 33,593	\$ 33,593	\$ 412,186
Date of issue September 2006	8/1/2018	360,000	25,830	25,830	411,660
amount of issue \$3,415,000	8/1/2019	380,000	17,730	17,730	415,460
Interest due August 1 and February 1	8/1/2020	395,000	9,085	9,085	413,170
		<u>\$ 1,480,000</u>	<u>\$ 86,238</u>	<u>\$ 86,238</u>	<u>\$ 1,652,476</u>
Tax Increment Finance Authority	10/1/2017	\$ 105,000	\$ 13,775	\$ 12,725	\$ 131,500
2015 Limited Tax Development Bonds	10/1/2018	105,000	12,725	11,675	129,400
Date of issue May 2015	10/1/2019	110,000	11,675	10,575	132,250
amount of issue \$1,155,000	10/1/2020	110,000	10,575	8,925	129,500
Interest due October 1 and April 1	10/1/2021	110,000	8,925	7,275	126,200
	10/1/2022	120,000	7,275	5,475	132,750
	10/1/2023	120,000	5,475	3,675	129,150
	10/1/2024	120,000	3,675	1,875	125,550
	10/1/2025	125,000	1,875	-	126,875
		<u>\$ 1,025,000</u>	<u>\$ 75,975</u>	<u>\$ 62,200</u>	<u>\$ 1,163,175</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2017

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Tax Increment Finance Authority	10/1/2017	\$ 270,000	\$ 81,141	\$ 71,759	\$ 422,900
Limited Tax Development Bonds Series 2006A	10/1/2018	290,000	71,759	61,681	423,440
Date of issue August 2006	10/1/2019	310,000	61,681	50,909	422,590
amount of issue \$4,270,000	10/1/2020	330,000	50,909	39,441	420,350
Interest due October 1 and April 1	10/1/2021	355,000	39,441	27,105	421,546
	10/1/2022	375,000	27,105	14,074	416,179
	10/1/2023	405,000	14,074	-	419,074
		<u>\$ 2,335,000</u>	<u>\$ 346,110</u>	<u>\$ 264,969</u>	<u>\$ 2,946,079</u>
Tax Increment Finance Authority	10/1/2017	\$ 330,000	\$ 57,726	\$ 50,301	\$ 438,027
Limited Tax Development Bonds Series 2006B	10/1/2018	335,000	50,301	42,764	428,065
Date of issue August 2006	10/1/2019	345,000	42,764	34,786	422,550
amount of issue \$5,675,000	10/1/2020	355,000	34,786	26,576	416,362
Interest due October 1 and April 1	10/1/2021	360,000	26,576	18,026	404,602
	10/1/2022	375,000	18,026	9,120	402,146
	10/1/2023	380,000	9,120	-	389,120
		<u>\$ 2,480,000</u>	<u>\$ 239,299</u>	<u>\$ 181,573</u>	<u>\$ 2,900,872</u>
Capital Improvement Bonds	8/1/2017	\$ 170,000	\$ 38,030	\$ 34,842	\$ 242,872
2010 Limited Tax General Obligation	8/1/2018	180,000	34,842	31,242	246,084
Date of issue September 2010	8/1/2019	190,000	31,242	27,300	248,542
amount of issue \$2,500,000	8/1/2020	200,000	27,300	23,000	250,300
Interest due August 1 and February 1	8/1/2021	210,000	23,000	17,750	250,750
	8/1/2022	225,000	17,750	12,125	254,875
	8/1/2023	235,000	12,125	6,250	253,375
	8/1/2024	250,000	6,250	-	256,250
		<u>\$ 1,660,000</u>	<u>\$ 190,539</u>	<u>\$ 152,509</u>	<u>\$ 2,003,048</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2017

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Capital Improvement Bonds	10/1/2017	\$ 125,000	\$ 55,531	\$ 53,656	\$ 234,187
2015 Limited Tax General Obligation	10/1/2018	125,000	53,656	51,781	230,437
Date of issue May 2015	10/1/2019	125,000	51,781	49,906	226,687
amount of issue \$3,500,000	10/1/2020	150,000	49,906	48,312	248,218
Interest due October 1 and April 1	10/1/2021	150,000	48,312	46,718	245,030
	10/1/2022	150,000	46,718	44,468	241,186
	10/1/2023	150,000	44,468	42,218	236,686
	10/1/2024	175,000	42,218	39,593	256,811
	10/1/2025	175,000	39,593	36,968	251,561
	10/1/2026	175,000	36,968	33,468	245,436
	10/1/2027	200,000	33,468	29,468	262,936
	10/1/2028	200,000	29,468	25,468	254,936
	10/1/2029	200,000	25,468	21,468	246,936
	10/1/2030	225,000	21,468	17,531	263,999
	10/1/2031	225,000	17,531	13,593	256,124
	10/1/2032	225,000	13,593	9,375	247,968
	10/1/2033	250,000	9,375	4,687	264,062
	10/1/2034	250,000	4,687	-	254,687
		<u>\$ 3,275,000</u>	<u>\$ 624,209</u>	<u>\$ 568,678</u>	<u>\$ 4,467,887</u>
Total bonds and notes payable		<u>\$ 12,410,000</u>	<u>\$ 1,565,780</u>	<u>\$ 1,316,167</u>	<u>\$ 15,291,947</u>
Installment Purchase - ambulance	10/1/2017	\$ 31,837	\$ 3,200	\$ -	\$ 35,037
Date of issue October 2015	10/1/2018	32,870	3,168	-	36,038
amount of issue \$164,011	10/1/2019	33,933	1,101	-	35,034
Interest due October 1		<u>\$ 98,640</u>	<u>\$ 7,469</u>	<u>\$ -</u>	<u>\$ 106,109</u>
Total governmental activities		<u>\$ 12,508,640</u>	<u>\$ 1,573,249</u>	<u>\$ 1,316,167</u>	<u>\$ 15,398,056</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2017

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Business Type Activities					
Bonds and notes payable					
South Huron Valley Utility Authority	10/1/2017	\$ 184,995	\$ 8,618	\$ 6,537	\$ 200,150
Sewer System Plant Acquisition Bonds	10/1/2018	189,297	6,537	4,407	200,241
Date of issue September 1998	10/1/2019	193,599	4,407	2,229	200,235
amount of issue \$3,271,516;	10/1/2020	198,163	2,229	-	200,392
Flat Rock Share of \$26,615,000					
Interest due October 1 and April 1		<u>\$ 766,054</u>	<u>\$ 21,791</u>	<u>\$ 13,173</u>	<u>\$ 801,018</u>
South Huron Valley Utility Authority	4/1/2018	\$ 119,935	\$ 12,567	\$ 12,567	\$ 145,069
2004 Sewer System Plant Expansion	4/1/2019	122,486	11,293	11,293	145,072
Date of issue April 2004	4/1/2020	126,314	9,994	9,994	146,302
amount of issue \$2,352,760;	4/1/2021	128,866	8,649	8,649	146,164
Flat Rock Share of \$9,220,000	4/1/2022	131,418	7,280	7,280	145,978
Interest due October 1 and April 1	4/1/2023	133,970	5,883	5,883	145,736
	4/1/2024	136,521	4,460	4,460	145,441
	4/1/2025	140,349	3,010	3,010	146,369
	4/1/2026	142,900	1,517	1,517	145,934
		<u>\$ 1,182,759</u>	<u>\$ 64,653</u>	<u>\$ 64,653</u>	<u>\$ 1,312,065</u>
South Huron Valley Utility Authority	5/1/2018	\$ 17,910	\$ 9,089	\$ 9,089	\$ 36,088
2010 Sewer System Improvements	5/1/2019	19,189	8,615	8,615	36,419
Date of issue May 2010	5/1/2020	19,189	8,106	8,106	35,401
amount of issue \$409,360;	5/1/2021	21,747	7,598	7,598	36,943
Flat Rock Share of \$1,600,000	5/1/2022	20,468	7,021	7,021	34,510
Interest due November 1 and May 1	5/1/2023	21,747	6,479	6,479	34,705
	5/1/2024	23,027	5,903	5,903	34,833
	5/1/2025	24,306	5,293	5,293	34,892
	5/1/2026	24,306	4,648	4,648	33,602
	5/1/2027	25,585	3,874	3,874	33,333
	5/1/2028	29,423	3,058	3,058	35,539
	5/1/2029	31,981	2,120	2,120	36,221
	5/1/2030	34,538	1,101	1,101	36,740
		<u>\$ 313,416</u>	<u>\$ 72,905</u>	<u>\$ 72,905</u>	<u>\$ 459,226</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2017

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
South Huron Valley Utility Authority	4/1/2018	\$ 25,245	\$ 5,228	\$ 5,228	\$ 35,701
2011 Sewer System Improvements	4/1/2019	26,087	4,912	4,912	35,911
Date of issue April 2011	4/1/2020	26,928	4,586	4,586	36,100
amount of issue \$537,073;	4/1/2021	26,928	4,250	4,250	35,428
Flat Rock Share of \$3,310,000	4/1/2022	27,770	3,913	3,913	35,596
Interest due October 1 and April 1	4/1/2023	28,611	3,566	3,566	35,743
	4/1/2024	29,453	3,208	3,208	35,869
	4/1/2025	30,294	2,840	2,840	35,974
	4/1/2026	31,136	2,461	2,461	36,058
	4/1/2027	31,977	2,072	2,072	36,121
	4/1/2028	32,819	1,672	1,672	36,163
	4/1/2029	32,819	1,262	1,262	35,343
	4/1/2030	33,660	852	852	35,364
	4/1/2031	35,439	433	433	36,305
		<u>\$ 419,166</u>	<u>\$ 41,255</u>	<u>\$ 41,255</u>	<u>\$ 501,676</u>
South Huron Valley Utility Authority					
2014 Sewer System Improvements					
Date of issue May 2014	4/11/2018	\$ 89,720	\$ 1,597	\$ 1,597	\$ 92,914
amount of issue \$448,602;	4/11/2019	89,696	799	798	91,293
Flat Rock Share of \$1,540,000					
Interest due October 11 and April 11		<u>\$ 179,416</u>	<u>\$ 2,396</u>	<u>\$ 2,395</u>	<u>\$ 184,207</u>
South Huron Valley Utility Authority	5/1/2018	\$ 59,295	\$ 1,040	\$ 1,040	\$ 61,375
2016 Sewer System Improvements	5/1/2019	59,295	924	924	61,143
Date of issue November 2016	5/1/2020	59,295	809	809	60,913
amount of issue \$592,954;	5/1/2021	59,295	693	693	60,681
Flat Rock Share of \$1,880,000	5/1/2022	59,295	578	578	60,451
Interest due November 1 and May 1	5/1/2023	59,295	462	462	60,219
	5/1/2024	59,295	347	347	59,989
	5/1/2025	59,295	231	231	59,757
	5/1/2026	59,297	116	116	59,529
		<u>\$ 533,657</u>	<u>\$ 5,200</u>	<u>\$ 5,200</u>	<u>\$ 544,057</u>
Total business-type activities		<u>\$ 3,394,468</u>	<u>\$ 208,200</u>	<u>\$ 199,581</u>	<u>\$ 3,802,249</u>

City of Flat Rock, Michigan
Other Supplementary Information
Tax Levies in Millage (Unaudited)
Last Twenty-Five Years
For the Years Ended June 30,

Fiscal Year	General Fund	Municipal Building Fund	Sewer Debt	Library Fund	Historical District	Police & Fire	Total
1993	14.48	2.10	-	-	-	-	16.58
1994	14.30	2.00	-	-	-	-	16.30
1995	13.14	-	-	-	-	-	13.14
1996	13.14	-	2.86	-	-	-	16.00
1997	13.15	-	2.86	-	-	-	16.01
1998	13.15	-	2.85	1.00	-	-	17.00
1999	13.15	-	2.85	1.00	-	-	17.00
2000	13.15	-	2.85	1.00	-	-	17.00
2001	13.15	-	-	1.00	-	-	14.15
2002	16.25	-	-	1.00	-	-	17.25
2003	16.00	-	-	1.00	0.25	-	17.25
2004	16.00	-	-	1.00	0.25	-	17.25
2005	16.00	-	-	1.00	0.25	-	17.25
2006	16.00	-	-	1.00	0.25	-	17.25
2007	16.00	-	-	1.00	0.25	-	17.25
2008	16.00	-	-	1.00	0.25	-	17.25
2009	16.00	-	-	1.00	0.25	-	17.25
2010	16.00	-	-	1.00	0.25	-	17.25
2011	16.00	-	-	1.00	0.25	-	17.25
2012	16.00	-	-	1.00	0.25	-	17.25
2013	16.00	-	-	1.00	0.25	1.75	19.00
2014	16.00	-	-	1.00	0.25	1.75	19.00
2015	16.00	-	-	1.50	0.25	1.75	19.50
2016	16.00	-	-	1.50	0.25	1.75	19.50
2017	16.00	-	-	1.50	0.25	1.75	19.50

City of Flat Rock, Michigan
Other Supplementary Information
Water and Sewer Rates (Unaudited)
Last Twenty-Five Years
For the Years Ended June 30,

Fiscal Year	Residential Rate	Non-Residential Rate	Commercial Rate	Industrial Rate
1993	\$ 4.00	\$ 4.00	\$ -	\$ -
1994	4.00	4.00	-	-
1995	4.00	4.00	-	-
1996	4.00	4.00	-	-
1997	4.00	4.50	-	-
1998	4.00	4.50	-	-
1999	4.00	4.50	-	-
2000	3.60	4.25	-	-
2001	4.00	4.50	-	-
2002	4.00	4.50	-	-
2003	4.00	4.50	-	-
2004	4.00	4.50	-	-
2005	4.50	5.00	-	-
2006	4.50	5.00	-	-
2007	4.50	5.00	-	-
2008	5.00	-	6.50	6.75
2009	5.00	-	6.50	6.75
2010	5.00	-	6.50	6.75
2011	6.00	-	7.50	7.75
2012	6.00	-	7.50	7.75
2013	7.00	-	8.50	8.75
2014	7.00	-	8.50	8.75
2015	7.50	-	9.00	9.25
2016	7.50	-	9.00	9.25
2017	7.50	-	9.00	9.25



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

Management and City Council
City of Flat Rock, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Flat Rock, Michigan as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Flat Rock, Michigan's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Ann Arbor, MI
December 15, 2017