

**City of Flat Rock,
Michigan**

Financial Statements

June 30, 2018



Table of Contents

<u>Section</u>	<u>Page</u>
1 List of Elected Officials	1 - 1
2 Independent Auditors' Report	2 - 1
3 Management's Discussion and Analysis	3 - 1
4 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	4 - 1
Statement of Activities	4 - 3
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4 - 4
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	4 - 6
Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
Proprietary Fund	
Statement of Net Position	4 - 10
Statement of Revenues, Expenses and Changes in Net Position	4 - 11
Statement of Cash Flows	4 - 12
Fiduciary Fund	
Statement of Fiduciary Assets and Liabilities	4 - 14
Notes to the Financial Statements	4 - 15

<u>Section</u>	<u>Page</u>
5	Required Supplementary Information
	Budgetary Comparison Schedules
	General Fund 5 - 1
	Tax Increment Finance Authority 5 - 3
	Community Center 5 - 4
	Other Post Employment Benefits
	Schedule of Employer Contributions 5 - 5
	Schedule of Changes in Total OPEB Liability and Related Ratios 5 - 6
	Municipal Employees Retirement System of Michigan
	Schedule of Employer Contributions 5 - 7
	Schedule of Changes in Net Pension Liability and Related Ratios 5 - 8
6	Other Supplementary Information
	Nonmajor Governmental Funds
	Combining Balance Sheet 6 - 1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances 6 - 2
	Schedule of Indebtedness 6 - 3
	Tax Levies in Millage 6 - 8
	Water and Sewer Rates 6 - 9
7	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>
	7 - 1
	Schedule of Findings and Responses 7 - 3
	Corrective Action Plan 7 - 4

City of Flat Rock, Michigan
List of Elected Officials
June 30, 2018

Officials and City Council

Jonathan Dropiewski – Mayor

Kenneth Wrobel – Mayor Pro-Tem

John Bergeron – Councilman

Jim Martin – Councilman

Mark Maul – Councilman

Wally Little – Councilman

Ricky Tefend – Councilman



800.968.0010 | yeoandyeo.com

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, 2018, 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, 2018, 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.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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 20, 2018 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 20, 2018

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, 2018. Please read it in conjunction with the City's financial statements.

Financial Highlights

- The City's total assets and deferred outflows of resources increased by \$1,643,425 (or 3.5%). The governmental total assets increased by \$829,406 (or 2.6%) and the business-type total assets increased by \$814,019 (or 5.2%).
- Total net position of \$(3,635,876) reflects a decrease of \$(11,687,432) from last fiscal year which represents a reporting of prior period adjustments relating to the adoption of GASB 75 for other post-employment obligations of \$(11,941,118) offset by a decrease of other liabilities and debts of \$253,686.
- At the end of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,238,289, an increase of \$323,890.
- At the end of the current fiscal year the fund balance for the General Fund increased \$96,458 to a final balance of \$1,644,912.

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, liabilities exceeded its assets at the end of the fiscal year by \$7,159,986. 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	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 4,717,934	\$ 4,818,262	\$ 4,000,562	\$ 3,750,849	\$ 8,718,496	\$ 8,569,111
Capital assets	<u>24,319,628</u>	<u>25,416,439</u>	<u>11,756,225</u>	<u>11,803,832</u>	<u>36,075,853</u>	<u>37,220,271</u>
Total assets	29,037,562	30,234,701	15,756,787	15,554,681	44,794,349	45,789,382
Deferred Outflows of Resources						
Deferred Charges	<u>3,450,510</u>	<u>1,423,965</u>	<u>816,436</u>	<u>204,523</u>	<u>4,266,946</u>	<u>1,628,488</u>
Total assets and deferred outflows	<u>32,488,072</u>	<u>31,658,666</u>	<u>16,573,223</u>	<u>15,759,204</u>	<u>49,061,295</u>	<u>47,417,870</u>
Liabilities						
Current	625,876	980,591	406,707	262,277	1,032,583	1,242,868
Noncurrent	<u>40,884,527</u>	<u>32,477,662</u>	<u>10,037,225</u>	<u>5,450,057</u>	<u>50,921,752</u>	<u>37,927,719</u>
Total liabilities	41,510,403	33,458,253	10,443,932	5,712,334	51,954,335	39,170,587
Deferred Inflows of Resources						
Deferred inflows	<u>612,061</u>	<u>171,638</u>	<u>130,775</u>	<u>24,089</u>	<u>742,836</u>	<u>195,727</u>
Total liabilities and deferred inflows	<u>42,122,464</u>	<u>33,629,891</u>	<u>10,574,707</u>	<u>5,736,423</u>	<u>52,697,171</u>	<u>39,366,314</u>
Net Position						
Net investment						
in capital assets	13,508,665	12,997,092	8,577,073	8,142,740	22,085,738	21,139,832
Restricted	2,121,185	2,420,040	-	-	2,121,185	2,420,040
Unrestricted	<u>(25,264,242)</u>	<u>(17,388,357)</u>	<u>(2,578,557)</u>	<u>1,880,041</u>	<u>(27,842,799)</u>	<u>(15,508,316)</u>
Total net position	<u>\$ (9,634,392)</u>	<u>\$ (1,971,225)</u>	<u>\$ 5,998,516</u>	<u>\$ 10,022,781</u>	<u>\$ (3,635,876)</u>	<u>\$ 8,051,556</u>

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenue:						
Charges for services	\$ 4,011,512	\$ 3,267,061	\$ 4,701,219	\$ 4,633,987	\$ 8,712,731	\$ 7,901,048
Operating grants and contributions	3,745,218	3,815,309	-	-	3,745,218	3,815,309
General revenues:						
Property taxes	7,996,296	5,954,794	-	-	7,996,296	5,954,794
State-shared revenue	955,682	925,638	-	-	955,682	925,638
Investment and rent earnings	20,771	12,395	9,884	5,022	30,655	17,417
Miscellaneous	262,643	220,195	145,309	-	407,952	220,195
Total revenues	16,992,122	14,195,392	4,856,412	4,639,009	21,848,534	18,834,401
Expenses						
General government	2,401,549	2,075,317	-	-	2,401,549	2,075,317
Public safety	5,698,429	4,714,405	-	-	5,698,429	4,714,405
Public works	2,240,563	2,175,404	-	-	2,240,563	2,175,404
Community and economic development	1,242,634	1,557,847	-	-	1,242,634	1,557,847
Recreation and cultural	5,019,966	2,825,353	-	-	5,019,966	2,825,353
Water and sewer	-	-	4,477,531	3,950,252	4,477,531	3,950,252
Interest on long-term debt	603,310	580,062	-	-	603,310	580,062
Total expenses	17,206,451	13,928,388	4,477,531	3,950,252	21,683,982	17,878,640
Excess revenues over (under) expenses before transfers	(214,329)	267,004	378,881	688,757	164,552	955,761
Transfers	78,490	29,935	(78,490)	(29,935)	-	-
Change in net position	(135,839)	296,939	300,391	658,822	164,552	955,761
Net position (deficit), beginning of year	(1,882,091)	(2,179,030)	10,022,781	9,363,959	8,140,690	7,184,929
Prior period adjustment - GASB 75	(7,616,462)	-	(4,324,656)	-	(11,941,118)	-
Net position - beginning of year (restated)	(9,498,553)	(2,179,030)	5,698,125	9,363,959	(3,800,428)	7,184,929
Net position (deficit), end of year	\$ (9,634,392)	\$ (1,882,091)	\$ 5,998,516	\$ 10,022,781	\$ (3,635,876)	\$ 8,140,690

Governmental Activities

Governmental activities change in net position decreased \$7,752,301 from (\$1,882,091) to (\$9,498,553). This includes a prior period decrease in other post-employment obligations of \$7,616,462 and liabilities in excess of assets by \$135,839 representing mostly current year changes in pension and other post-employment obligations.

Business-Type Activities

Business-type activities decreased the City's net assets by \$4,024,265 mostly relating to prior period adjustment for other post-employment obligations of \$4,324,656.

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year its realized fund balance was \$1,644,912 or 18.6% of general fund expenditures. Total fund balance increased by \$96,458, during the fiscal year.

Tax Increment Finance Authority

The Tax Increment Finance Authority has a fund balance of \$817,024, which is a decrease of \$71,943 from the 2017-18 fiscal year.

Community Center

The Community Center Fund has a fund balance of \$(19,221), which is a decrease of \$(55,595) due to operating activities.

Nonmajor Governmental Funds

Nonmajor Governmental Funds had a total fund balance of \$1,795,574, a total increase of \$354,970 from the prior fiscal year which includes a \$171,453 increase in Downtown Development Authority fund balance and an increase of \$108,727 in Streets 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, 2018, amounts to \$36,075,853 (net of accumulated depreciation). This investment includes a broad range of capital assets, which are detailed in the table below. The total decrease in the City's capital assets for the current fiscal year was \$1,144,418, 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, 2018 compared to June 30, 2017:

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

	2018			2017		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Land	\$ 1,563	\$ -	\$ 1,563	\$ 1,563	\$ -	\$ 1,563
Construction in progress	-	-	-	-	-	-
Infrastructure	6,048	-	6,048	6,436	-	6,436
Buildings and Improvements, net	15,380	3,961	19,341	15,868	4,075	19,943
Machinery and meters, net	1,173	565	1,738	1,319	153	1,472
Water and sewer mains, net	-	7,172	-	-	7,532	-
Vehicles, net	156	58	214	230	44	274
Capital assets, net	\$ 24,320	\$ 11,756	\$ 36,076	\$ 25,416	\$ 11,804	\$ 37,220

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 \$15,335,212.

Outstanding Debt at Year End

	Governmental Activities	Business Type Activities	Total
Bonds and note	\$ 10,986,922	\$ 2,897,356	\$ 13,884,278
Claims and judgements	511,848	-	511,848
Other	617,081	322,005	939,086
	\$ 12,115,851	\$ 3,219,361	\$ 15,335,212

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 (\$15,335,212) is lower than the current state-imposed limit of \$33,947,287.

Economic Condition and Outlook

The City of Flat Rock's budget for year ending June 30, 2019 recommends a 1 mill increase dedicated to Roads, Streets and Bridges and a Water and Sewer rate increase of \$0.25 per 1,000 gallons.

The City's 2019 budgeted revenue consists of 64.1% tax revenues, 25.3% local sources and 10.6% from other sources. The City's tax base is projected to have an increase of \$12,417,097. Local revenues are projected to decrease by \$502,400 for the fiscal year ended June 30, 2019 mostly due to a decrease in Building Permits. 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 52.0% to public safety, police, fire, building and safety. The department of public services amounts to 25.8% and the general operations, which include the clerk's and treasurer's departments, total 18.7% and other areas total 3.5%. In addition, it is recommended that expenditures will increase by \$307,700 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 \$1,644,912 or 17.4% 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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,208,836	\$ 3,005,752	\$ 7,214,588
Receivables			
Taxes	63,875	-	63,875
Customers	-	970,400	970,400
Accrued interest and other	3,327	-	3,327
Due from other units of government	375,824	-	375,824
Inventories	13,828	20,572	34,400
Prepaid items	52,244	3,838	56,082
Capital assets not being depreciated	1,563,255	-	1,563,255
Capital assets, net of accumulated depreciation	<u>22,756,373</u>	<u>11,756,225</u>	<u>34,512,598</u>
Total assets	<u>29,037,562</u>	<u>15,756,787</u>	<u>44,794,349</u>
Deferred outflows of resources			
Deferred amount relating to net pension liability	1,391,605	201,439	1,593,044
Deferred amount relating to total OPEB liability	<u>2,058,905</u>	<u>614,997</u>	<u>2,673,902</u>
Total deferred outflows of resources	<u>3,450,510</u>	<u>816,436</u>	<u>4,266,946</u>
Total assets and deferred outflows of resources	<u>32,488,072</u>	<u>16,573,223</u>	<u>49,061,295</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 126,876	\$ 353,006	\$ 479,882
Accrued and other liabilities	485,749	53,701	539,450
Due to other units of government	13,251	-	13,251
Noncurrent liabilities			
Due within one year	1,782,247	584,443	2,366,690
Due in more than one year	10,333,604	2,634,918	12,968,522
Net pension liability	11,634,596	1,699,892	13,334,488
Total OPEB liability	17,134,080	5,117,972	22,252,052
Total liabilities	<u>41,510,403</u>	<u>10,443,932</u>	<u>51,954,335</u>
Deferred inflows of resources			
Deferred amount relating to net pension liability	281,822	27,477	309,299
Deferred amount relating to total OPEB liability	330,239	98,643	428,882
Deferred amount related to bond refunding	-	4,655	4,655
Total deferred inflows of resources	<u>612,061</u>	<u>130,775</u>	<u>742,836</u>
Total liabilities and deferred inflows of resources	<u>42,122,464</u>	<u>10,574,707</u>	<u>52,697,171</u>
Net position			
Net investment in capital assets	13,508,665	8,577,073	22,085,738
Restricted for			
TIFA	817,024	-	817,024
Downtown development authority	549,325	-	549,325
Historical district	220,739	-	220,739
Library	203,029	-	203,029
Capital projects	324,465	-	324,465
Other special revenue projects	6,603	-	6,603
Unrestricted (deficit)	<u>(25,264,242)</u>	<u>(2,578,557)</u>	<u>(27,842,799)</u>
Total net position	<u>\$ (9,634,392)</u>	<u>\$ 5,998,516</u>	<u>\$ (3,635,876)</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government						
Governmental activities						
General government	\$ 2,401,549	\$ 52,289	\$ 2,877,861	\$ 528,601	\$ -	\$ 528,601
Public safety	5,698,429	1,670,937	24,648	(4,002,844)	-	(4,002,844)
Public works	2,240,563	670,578	830,383	(739,602)	-	(739,602)
Community and economic development	1,242,634	3,700	-	(1,238,934)	-	(1,238,934)
Recreation and culture	5,019,966	1,614,008	12,326	(3,393,632)	-	(3,393,632)
Interest on long-term debt	603,310	-	-	(603,310)	-	(603,310)
Total governmental activities	17,206,451	4,011,512	3,745,218	(9,449,721)	-	(9,449,721)
Business-type activities						
Water and sewer	4,477,531	4,701,219	-	-	223,688	223,688
Total primary government	\$ 21,683,982	\$ 8,712,731	\$ 3,745,218	(9,449,721)	223,688	(9,226,033)
General revenues						
Property taxes				7,996,296	-	7,996,296
State shared revenue				955,682	-	955,682
Unrestricted investment earnings				20,771	9,884	30,655
Gain on sale of capital assets				38,977	145,309	184,286
Miscellaneous				223,666	-	223,666
Transfers				78,490	(78,490)	-
Total general revenues and transfers				9,313,882	76,703	9,390,585
Change in net position				(135,839)	300,391	164,552
Net position - beginning of year				(1,882,091)	10,022,781	8,140,690
Prior period adjustment				(7,616,462)	(4,324,656)	(11,941,118)
Net position - beginning of year (restated)				(9,498,553)	5,698,125	(3,800,428)
Net position - end of year				\$ (9,634,392)	\$ 5,998,516	\$ (3,635,876)

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Balance Sheet
June 30, 2018

	General	Special Revenue Funds		Nonmajor Governmental Funds	Total Governmental Funds
		Tax Incremental Financing Authority	Community Center		
Assets					
Cash and cash equivalents	\$ 1,453,244	\$ 822,153	\$ 223,163	\$ 1,710,276	\$ 4,208,836
Receivables					
Taxes	62,353	-	-	1,522	63,875
Accrued interest and other	3,327	-	-	-	3,327
Due from other units of government	215,458	-	7,807	152,559	375,824
Due from other funds	57,578	-	-	30,608	88,186
Inventories	13,828	-	-	-	13,828
Prepaid items	34,659	-	13,759	3,826	52,244
Total assets	<u>\$ 1,840,447</u>	<u>\$ 822,153</u>	<u>\$ 244,729</u>	<u>\$ 1,898,791</u>	<u>\$ 4,806,120</u>
Liabilities					
Accounts payable	\$ 97,879	\$ 3,119	\$ 14,596	\$ 11,282	\$ 126,876
Accrued and other liabilities	84,405	-	249,354	5,759	339,518
Due to other funds	-	2,010	-	86,176	88,186
Due to other units of government	13,251	-	-	-	13,251
Total liabilities	<u>195,535</u>	<u>5,129</u>	<u>263,950</u>	<u>103,217</u>	<u>567,831</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Governmental Funds
Balance Sheet
June 30, 2018

		Special Revenue Funds			
	General	Tax Incremental Financing Authority	Community Center	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances					
Non-spendable					
Inventories	\$ 13,828	\$ -	\$ -	\$ -	\$ 13,828
Prepaid items	34,659	-	13,759	3,826	52,244
Restricted for					
TIFA	-	817,024	-	-	817,024
Streets	-	-	-	487,657	487,657
Downtown development authority	-	-	-	549,325	549,325
Historical district	-	-	-	220,729	220,729
Library	-	-	-	202,969	202,969
Capital projects	-	-	-	324,465	324,465
Other special revenue projects	-	-	-	6,603	6,603
Unassigned (deficit)	<u>1,596,425</u>	<u>-</u>	<u>(32,980)</u>	<u>-</u>	<u>1,563,445</u>
Total fund balances	<u>1,644,912</u>	<u>817,024</u>	<u>(19,221)</u>	<u>1,795,574</u>	<u>4,238,289</u>
Total liabilities, and fund balances	<u>\$ 1,840,447</u>	<u>\$ 822,153</u>	<u>\$ 244,729</u>	<u>\$ 1,898,791</u>	<u>\$ 4,806,120</u>

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, 2018

Total fund balances for governmental funds	\$ 4,238,289
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.	22,756,373
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 liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(146,231)
Compensated absences	(468,575)
Claims and judgments	(511,848)
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(281,822)
Deferred inflows of resources resulting from total OPEB liability	(330,239)
Deferred outflows of resources from resulting from net pension liability	1,391,605
Deferred outflows of resources from resulting from total OPEB liability	2,058,905
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	(11,058,506)
Bond premium	(76,922)
Net pension liability	(11,634,596)
Total OPEB liability	<u>(17,134,080)</u>
Net position of governmental activities	<u>\$ (9,634,392)</u>

City of Flat Rock, Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General	Special Revenue Funds		Nonmajor Governmental Funds	Total Governmental Funds
		Tax Incremental Financing Authority	Community Center		
Revenues					
Taxes	\$ 5,902,117	\$ 1,006,533	\$ -	\$ 1,087,646	\$ 7,996,296
Licenses and permits	793,239	-	-	-	793,239
Federal grants	5,026	-	-	96,225	101,251
State shared revenue	926,248	-	-	836,271	1,762,519
Other state grants	283,426	2,289,612	21,284	344,477	2,938,799
Local contributions	455,926	-	-	-	455,926
Charges for services	310,336	-	1,410,091	-	1,720,427
Fines and forfeitures	516,568	-	-	-	516,568
Interest income	12,074	1,635	340	6,722	20,771
Rental income	163,079	-	-	-	163,079
Other revenue	390,411	-	1,103	92,756	484,270
Total revenues	<u>9,758,450</u>	<u>3,297,780</u>	<u>1,432,818</u>	<u>2,464,097</u>	<u>16,953,145</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, 2018

		Special Revenue Funds			
	General	Tax Increment Financing Authority	Community Center	Nonmajor Governmental Funds	Total Governmental Funds
Expenditures					
Current					
General government	\$ 2,198,555	\$ -	\$ -	\$ -	\$ 2,198,555
Public safety	4,707,231	-	-	814	4,708,045
Public works	1,538,037	-	-	656,507	2,194,544
Community and economic development	15,118	139,797	-	485,789	640,704
Recreation and culture	163,440	1,915,577	1,657,595	-	3,736,612
Library	-	-	-	377,723	377,723
Capital outlay	192,431	229,094	5,818	390,108	817,451
Debt service					
Principal retirement	31,840	-	-	1,500,000	1,531,840
Interest and fiscal charges	4,926	-	-	536,322	541,248
Total expenditures	<u>8,851,578</u>	<u>2,284,468</u>	<u>1,663,413</u>	<u>3,947,263</u>	<u>16,746,722</u>
Excess (deficiency) of revenues over expenditures	<u>906,872</u>	<u>1,013,312</u>	<u>(230,595)</u>	<u>(1,483,166)</u>	<u>206,423</u>
Other financing sources (uses)					
Transfers in	-	-	175,000	2,707,196	2,882,196
Transfers out	(849,391)	(1,085,255)	-	(869,060)	(2,803,706)
Proceeds from sale of fixed assets	38,977	-	-	-	38,977
Total other financing sources (uses)	<u>(810,414)</u>	<u>(1,085,255)</u>	<u>175,000</u>	<u>1,838,136</u>	<u>117,467</u>
Net change in fund balance	96,458	(71,943)	(55,595)	354,970	323,890
Fund balance - beginning 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>
Fund balance - end of year (deficit)	<u>\$ 1,644,912</u>	<u>\$ 817,024</u>	<u>\$ (19,221)</u>	<u>\$ 1,795,574</u>	<u>\$ 4,238,289</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, 2018

Net change in fund balances - Total governmental funds	\$ 323,890
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	(1,652,200)
Capital outlay	555,389
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Grants	(90,469)
Expenses are recorded when incurred in the statement of activities.	
Accrued interest	20,966
Compensated absences	24,830
Claims and judgments	141,952
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	82,967
Net change in the deferred outflow of resources related to the net pension liability	(32,360)
Net change in the deferred inflow of resources related to the net pension liability	(110,184)
The statement of net position reports the total OPEB liability and deferred outflows of resources and deferred inflows related to the total OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in total OPEB liability	(2,655,886)
Net change in the deferred outflow of resources related to the total OPEB liability	2,058,905
Net change in the deferred inflow of resources related to the total OPEB liability	(330,239)
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	1,609,628
Amortization of premiums	(83,028)
Change in net position of governmental activities	\$ (135,839)

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Fund
Statement of Net Position
June 30, 2018

	Enterprise Fund Water and Sewer
Assets	
Current assets	
Cash and cash equivalents	\$ 3,005,752
Receivables	
Customers	970,400
Inventories	20,572
Prepaid items	<u>3,838</u>
Total current assets	4,000,562
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>11,756,225</u>
Total assets	<u>15,756,787</u>
Deferred outflows of resources	
Deferred amount of pension expense related to net pension liability	201,439
Deferred amount of OPEB expense related to total OPEB liability	<u>614,997</u>
Total deferred outflows of resources	<u>816,436</u>
Total assets and deferred outflows of resources	<u>16,573,223</u>
Liabilities	
Current liabilities	
Accounts payable	353,006
Accrued and other liabilities	53,701
Current portion of noncurrent liabilities	<u>584,443</u>
Total current liabilities	<u>991,150</u>
Noncurrent liabilities	
Net pension liability	1,699,892
Total OPEB liability	5,117,972
Noncurrent liabilities due in more than one year	<u>2,634,918</u>
Total noncurrent liabilities	<u>9,452,782</u>
Total liabilities	<u>10,443,932</u>
Deferred inflows of resources	
Deferred amount relating to net pension liability	27,477
Deferred amount relating to total OPEB liability	98,643
Deferred amount related to bond refunding	<u>4,655</u>
Total deferred inflows of resources	<u>130,775</u>
Total liabilities and deferred inflows of resources	<u>10,574,707</u>
Net position	
Net investment in capital assets	8,577,073
Unrestricted	<u>(2,578,557)</u>
Total net position	<u>\$ 5,998,516</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Fund
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	<u>Enterprise Fund</u>
	<u>Water and Sewer</u>
Operating revenue	
Customer fees	\$ 4,522,603
Connection fees	105,821
Other revenue	<u>72,795</u>
Total operating revenue	<u>4,701,219</u>
Operating expenses	
Personnel services	898,280
Supplies	20,855
Contractual services	370,007
Utilities	5,321
Repairs and maintenance	262,391
Other expenses	2,199,685
Depreciation	<u>642,309</u>
Total operating expenses	<u>4,398,848</u>
Operating income	<u>302,371</u>
Nonoperating revenue (expenses)	
Interest income	9,884
Gain on sale of assets	145,309
Interest expense	<u>(78,683)</u>
Total nonoperating revenue (expenses)	<u>76,510</u>
Income before transfers out	378,881
Transfers out	<u>(78,490)</u>
Change in net position	<u>300,391</u>
Net position - beginning of year	10,022,781
Prior period adjustment	<u>(4,324,656)</u>
Net position - beginning of year (restated)	<u>5,698,125</u>
Net position - end of year	<u>\$ 5,998,516</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Fund
Statement of Cash Flows
For the Year Ended June 30, 2018

	<u>Enterprise Fund</u> Water and Sewer
Cash flows from operating activities	
Receipts from customers	\$ 4,319,999
Receipts from other funds	39,521
Payments to suppliers	(2,539,807)
Payments to employees	<u>(825,436)</u>
Net cash provided by operating activities	<u>994,277</u>
Cash flows from noncapital financing activities	
Transfers to other funds	<u>(78,490)</u>
Cash flows from capital and related financing activities	
Proceeds from capital debt	269,596
Purchases/construction of capital assets	(594,702)
Principal and interest paid on long-term debt	(837,360)
Proceeds from sale of capital assets	<u>145,309</u>
Net cash used by capital and related financing activities	<u>(1,017,157)</u>
Cash flows from investing activities	
Interest received	<u>9,911</u>
Net change in cash and cash equivalents	(91,459)
Cash and cash equivalents - beginning of year	<u>3,097,211</u>
Cash and cash equivalents - end of year	<u><u>\$ 3,005,752</u></u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Proprietary Fund
Statement of Cash Flows
For the Year Ended June 30, 2018

	<u>Enterprise Fund</u> Water and Sewer
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 302,371
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	642,309
Noncash portion related to net pension and total OPEB liability	785,408
Changes in assets and liabilities	
Receivables (net)	(381,560)
Due from other units of government	340
Due from other funds	39,521
Prepaid items	527
Deferred outflows of resources	(611,913)
Accounts payable	235,271
Accrued and other liabilities	(90,841)
Compensated absences	(36,301)
Deferred inflows of resources	109,145
Net cash provided by operating activities	<u>\$ 994,277</u>

See Accompanying Notes to the Financial Statements

City of Flat Rock, Michigan
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2018

	<u>Trust and Agency</u>
Assets	
Cash and cash equivalents	<u>\$ 204,268</u>
Liabilities	
Accounts payable	58,722
Due to other governments	<u>145,546</u>
Total liabilities	<u>\$ 204,268</u>

City of Flat Rock, Michigan

Notes to the Financial Statements

June 30, 2018

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 \$376,289 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, 2018, the City incurred net operating costs of \$932,772. In addition, the City paid \$497,100 in principal payments and \$74,197 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

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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 \$19,264. 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 2017 taxable valuation of the government totaled \$298,905,882, on which ad valorem taxes consisted of 16.00 mills for operating purposes. This resulted in \$3,791,311 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. Approximately 13.71% of the City's property tax revenue is from one company located in the City of Flat Rock.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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 acquisition cost 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 reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year. Changes in assumptions and experience differences relating to the net pension liability and changes in assumptions related to the total OPEB liability are deferred and amortized over the expected remaining service lives of the plan members.

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. 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 actually earned. This amount will be amortized over the next four years and included in pension expense. Assumption and experience differences relating to the net pension liability and total OPEB liability are deferred and amortized over the expected remaining service lives of the plan members. In addition, the City reports deferred inflows of resources for deferred gains on bond refunding. A deferred

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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 – The City offers pension 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 actuarially determined contribution (ADC) necessary to fund the obligations over the remaining amortization periods. In the governmental funds, pension costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost.

Other Postemployment Benefits (OPEB) – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the City of Flat Rock Retiree Medical Plan (CFRRMP) and additions to/deductions from CFRRMP have been determined on the same basis as they are reported by CFRRMP. For this purpose, CFRRMP recognizes benefit payments when due and payable in accordance with the benefit terms. The City receives actuarial-based calculations to compute the actuarially determined contribution (ADC) necessary to fund the obligations over the remaining amortization periods. The City does not pre-fund the plan and is on the pay-as-you-go method. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost.

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.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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 expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

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. 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).

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.

Upcoming Accounting and Reporting Changes

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

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. 87, *Leases* increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

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

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			
Recreation and culture	\$ 142,200	\$ 163,440	\$ 21,240
Capital outlay	152,000	192,431	40,431
Tax Increment Finance Authority Fund			
Community and economic developmer	133,500	139,797	6,297
Transfers out	1,083,600	1,085,255	1,655
Community Center			
Capital outlay	-	5,818	5,818

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

Unrestricted Deficits

As of June 30, 2018, the City has accumulated unrestricted deficit net position in the Community Center Fund in the amount of \$19,221. The City is in the process of implementing a deficit elimination plan created following the June 30, 2018 fiscal year end.

Note 3 - Deposits and Investments

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

	Cash and Cash Equivalents
Governmental activities	\$ 4,208,836
Business-type activities	<u>3,005,752</u>
 Total primary government	 7,214,588
 Fiduciary funds	 <u>204,268</u>
 Total	 <u><u>\$ 7,418,856</u></u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Total
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 7,213,388	\$ 204,268	\$7,417,656
Petty cash and cash on hand	<u>1,200</u>	<u>-</u>	<u>1,200</u>
	<u><u>\$7,214,588</u></u>	<u><u>\$ 204,268</u></u>	<u><u>\$7,418,856</u></u>

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

As of year end, the government had the following investments:

Investment	Fair Value	Rating	Organization
Monroe Bank & Trust			
Money Market	\$3,000,000	Aaa-mf	Moody's
Fifth Third Government			
Money Market	<u>597,057</u>	Aaa-mf	Moody's
	<u>\$3,597,057</u>		

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 year end, \$347,057 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 - 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	<u>\$ 1,563,255</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,563,255</u>
Capital assets being depreciated				
Infrastructure	28,041,892	422,654	-	28,464,546
Buildings, additions and improvements	23,854,198	17,722	-	23,871,920
Machinery and equipment	5,981,249	114,014	100,000	5,995,263
Vehicles	<u>1,177,076</u>	<u>999</u>	<u>66,000</u>	<u>1,112,075</u>
Total capital assets being depreciated	<u>59,054,415</u>	<u>555,389</u>	<u>166,000</u>	<u>59,443,804</u>
Less accumulated depreciation for				
Infrastructure	21,606,443	810,552	-	22,416,995
Buildings, additions and improvements	7,986,138	505,690	-	8,491,828
Machinery and equipment	4,661,786	260,111	100,000	4,821,897
Vehicles	<u>946,864</u>	<u>75,847</u>	<u>66,000</u>	<u>956,711</u>
Total accumulated depreciation	<u>35,201,231</u>	<u>1,652,200</u>	<u>166,000</u>	<u>36,687,431</u>
Net capital assets being depreciated	<u>23,853,184</u>	<u>(1,096,811)</u>	<u>-</u>	<u>22,756,373</u>
Governmental activities capital assets, net	<u>\$25,416,439</u>	<u>\$ (1,096,811)</u>	<u>\$ -</u>	<u>\$24,319,628</u>

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

	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	562,615	450,363	1,108,983
Vehicles	374,987	32,087	-	407,074
Water and sewer system	<u>19,187,113</u>	<u>-</u>	<u>-</u>	<u>19,187,113</u>
Total capital assets being depreciated	<u>27,075,793</u>	<u>594,702</u>	<u>450,363</u>	<u>27,220,132</u>
Less accumulated depreciation for				
Buildings, additions and improvements	2,442,473	113,673	-	2,556,146
Machinery and equipment	843,783	150,143	450,363	543,563
Vehicles	330,794	17,907	-	348,701
Water and sewer system	<u>11,654,911</u>	<u>360,586</u>	<u>-</u>	<u>12,015,497</u>
Total accumulated depreciation	<u>15,271,961</u>	<u>642,309</u>	<u>450,363</u>	<u>15,463,907</u>
Net capital assets being depreciated	<u>11,803,832</u>	<u>(47,607)</u>	<u>-</u>	<u>11,756,225</u>
Business-type capital assets, net	<u>\$ 11,803,832</u>	<u>\$ (47,607)</u>	<u>\$ -</u>	<u>\$ 11,756,225</u>

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

Governmental Activities

General government	\$ 52,264
Public safety	194,107
Public works	96,316
Recreation and culture	498,961
Other functions	<u>810,552</u>
Total governmental activities	<u>1,652,200</u>

Business-type Activities

Water and Sewer	<u>642,309</u>
Total primary government	<u>\$ 2,294,509</u>

Note 5 - Capital Leases

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

Year ending June 30,	Governmental Funds			
	Sweeper	Dump Truck	Copiers	Total
2019	\$ 39,924	\$ 41,772	\$ 1,320	\$ 83,016
2020	<u>-</u>	<u>-</u>	<u>1,320</u>	<u>1,320</u>
Total minimum lease payments	39,924	41,772	2,640	84,336
Less amount representing interest	<u>1,251</u>	<u>1,250</u>	<u>129</u>	<u>2,630</u>
Present value of minimum lease payments	<u>\$ 38,673</u>	<u>\$ 40,522</u>	<u>\$ 2,511</u>	<u>\$ 81,706</u>
Equipment	\$ 187,492	\$ 197,781	\$ 8,459	\$ 393,732
Less accumulated depreciation	<u>107,140</u>	<u>113,016</u>	<u>6,768</u>	<u>226,924</u>
Total	<u>\$ 80,352</u>	<u>\$ 84,765</u>	<u>\$ 1,691</u>	<u>\$ 166,808</u>

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Funds	\$ 55,568
General Fund	TIFA Fund	2,010
Nonmajor Funds	Nonmajor Funds	<u>30,608</u>
		<u>\$ 88,186</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.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Community Center	\$ 175,000
General Fund	Nonmajor Funds	674,391
Nonmajor funds	Nonmajor Funds	869,060
TIFA Fund	Nonmajor Funds	1,085,255
Water/Sewer	Nonmajor Funds	78,490
		<u>\$ 2,882,196</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.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

Note 7 - 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	\$ 155,000	\$ -	\$ 155,000	\$ -	\$ -
Building Authority Bond, Series 2006	3,415,000	8/1/21	4.00% - 4.60%	\$345,000 - \$395,000	1,480,000	-	345,000	1,135,000	360,000
Tax Increment Finance Authority - Limited Tax Development Bonds Series 2006A	4,270,000	10/1/24	6.95%	\$270,000 - \$405,000	2,335,000	-	270,000	2,065,000	290,000
Tax Increment Finance Authority - Limited Tax Development Bonds Series 2006B	5,675,000	10/1/24	4.50% - 4.80%	\$330,000 - \$380,000	2,480,000	-	330,000	2,150,000	335,000
Capital Improvement Bonds - 2010 Limited Tax General Obligation	2,500,000	8/1/25	3.75% - 5.00%	\$170,000 - \$250,000	1,660,000	-	170,000	1,490,000	180,000
Tax Increment Finance Authority - 2015 Limited Tax Development Bonds	1,750,000	10/1/26	2.00% - 3.00%	\$105,000 - \$245,000	1,025,000	-	105,000	920,000	105,000
Capital Improvement Bonds - 2015 Limited Tax General Obligation	2,500,000	8/1/25	2.13% - 4.00%	\$125,000 - \$250,000	3,275,000	-	125,000	3,150,000	125,000
Total bonds and notes payable					12,410,000	-	1,500,000	10,910,000	1,395,000
Premium on bond issues					83,028	-	6,106	76,922	-
Installment purchase agreement - ambulance	164,011	10/1/19	3.20%	\$31,837 - \$33,933	98,640	-	31,840	66,800	32,870
Claims and judgments									
Auto Alliance, Inc. - Refundable 2009 Personal Property Tax	559,630	8/31/21	N/A	\$55,963	223,852	-	55,963	167,889	55,963
Auto Alliance, Inc. - Refundable 2009 - 2011 Real Property Tax	859,887	10/31/22	N/A	\$85,989	429,948	-	85,989	343,959	85,989
Total claims and judgements					653,800	-	141,952	511,848	141,952

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

	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	\$ 493,405	\$ -	\$ 24,830	468,575	\$ 132,005
Capital lease - sweeper	\$ 187,492	2/2/19	3.19%	\$37,460 - \$38,673	76,133	-	37,460	38,673	38,673
Capital lease - dump truck	195,374	5/8/19	3.08%	\$39,310 - \$40,522	79,832	-	39,310	40,522	40,522
Capital lease - copier	5,852	5/29/20	4.84%	\$1,127 - \$1,230	3,529	-	1,018	2,511	1,225
Total other					652,899	-	102,618	550,281	212,425
Total governmental activities					<u>\$ 13,898,367</u>	<u>\$ -</u>	<u>\$ 1,782,516</u>	<u>\$ 12,115,851</u>	<u>\$ 1,782,247</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	\$ 766,054	\$ -	\$ 184,995	\$ 581,059	\$ 189,297
South Huron Valley Utility Authority - 2004 Sewer System Plant Expansion	2,352,760	4/1/26	2.13%	\$119,935 - \$142,900	1,182,759	-	119,935	1,062,824	122,486
South Huron Valley Utility Authority - 2010 Sewer System Improvements	409,360	5/1/30	4.00%	\$17,910 - \$34,538	313,417	-	17,910	295,507	19,189
South Huron Valley Utility Authority - 2011 Sewer System Improvements	557,073	4/1/31	2.50%	\$25,245 - \$35,439	419,166	-	25,245	393,921	26,087
South Huron Valley Utility Authority - 2014 Sewer System Improvements	448,602	4/1/29	1.78%	\$89,696 - \$89,720	179,403	-	89,720	89,683	89,683
South Huron Valley Utility Authority - 2016 Sewer System Improvements	592,954	11/1/26	2.75%	\$59,295 - \$59,297	533,657	-	59,295	474,362	59,295
Total bonds and notes payable					<u>3,394,456</u>	<u>-</u>	<u>497,100</u>	<u>2,897,356</u>	<u>506,037</u>
Other									
Biodeck note	92,259	4/1/19	N/A	\$23,065 - \$46,129	69,194	-	46,129	23,065	23,065
Capital lease - 2012 Vactor	311,938	10/19/18	3.78%	\$168,154	168,154	-	168,154	-	-
Equipment purchase agreement - 2014 Backhoe	69,832	10/8/18	3.35%	\$14,442 - \$14,834	29,315	-	14,442	14,873	14,873
Equipment purchase agreement - 2017 Vactor Truck	269,596	11/13/17	3.16%	\$22,834 - \$143,445	-	269,596	30,393	239,203	22,834
Compensated absences	N/A	N/A	N/A	N/A	81,165	-	36,301	44,864	17,634
Total other					<u>347,828</u>	<u>269,596</u>	<u>295,419</u>	<u>322,005</u>	<u>78,406</u>
Total business-type activities					<u>\$ 3,742,284</u>	<u>\$ 269,596</u>	<u>\$ 792,519</u>	<u>\$ 3,219,361</u>	<u>\$ 584,443</u>

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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
2019	\$ 1,427,870	\$ 468,156	\$ 566,809	\$ 72,084
2020	1,493,930	400,536	448,881	60,463
2021	1,540,000	328,815	459,299	50,701
2022	1,185,000	263,128	264,019	42,908
2023	1,245,000	202,136	387,068	37,314
2024 - 2028	2,510,000	442,824	879,983	89,423
2029 - 2033	1,075,000	194,963	168,438	11,534
2034 - 2036	500,000	18,749	-	-
	<u>\$10,976,800</u>	<u>\$2,319,307</u>	<u>\$3,174,497</u>	<u>\$ 364,427</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. The remaining principal on this debt is \$1,100,000 and matures on October 1, 2025.

Deferred amount on refunding activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Less deferred amounts on defeasance	<u>\$ 7,114</u>	<u>\$ -</u>	<u>\$ 2,459</u>	<u>\$ 4,655</u>

Note 8 - 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 9 - 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, 2017 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>56</u>
	<u>121</u>

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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, 2017, 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	55.5%	8.65%
Global fixed income	18.5%	3.76%
Real assets	13.5%	9.72%
Diversifying strategies	12.5%	7.50%

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.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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

	<u>2018</u>
Total Pension Liability	
Service cost	\$ 297,216
Interest on the total pension liability	1,941,237
Experience differences	323,533
Benefit payments and refunds	<u>(1,679,080)</u>
Net change in total pension liability	882,906
Total pension liability - beginning	<u>24,956,391</u>
Total pension liability - ending (a)	<u><u>\$ 25,839,297</u></u>
Plan Fiduciary Net Position	
Employer contributions	\$ 1,011,342
Employee contributions	170,853
Pension plan net investment gain	1,494,359
Benefit payments and refunds	(1,679,080)
Pension plan administrative expense	<u>(23,693)</u>
Net change in plan fiduciary net position	973,781
Plan fiduciary net position - beginning	<u>11,531,028</u>
Plan fiduciary net position - ending (b)	<u>12,504,809</u>
Net pension liability (a-b)	<u><u>\$ 13,334,488</u></u>
Plan fiduciary net position as a percentage of total pension liability	48.39%
Covered payroll	\$ 3,350,656
Net pension liability as a percentage of covered employee payroll	397.97%

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	\$ 28,549,671	\$ 25,839,297	\$ 23,536,096
Fiduciary net position	<u>12,504,809</u>	<u>12,504,809</u>	<u>12,504,809</u>
Net pension liability	<u><u>\$ 16,044,862</u></u>	<u><u>\$ 13,334,488</u></u>	<u><u>\$ 11,031,287</u></u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended June 30, 2018, the employer recognized pension expense of \$1,573,188. 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	\$ 368,277	\$ (94,307)	\$ 273,970	\$ 273,970
Differences in assumptions	266,224	-	266,224	266,224
Net difference between projected and actual earning on plan investments	-	(214,992)	(214,992)	(214,992)
Contributions subsequent to the measurement date*	<u>958,543</u>	<u>-</u>	<u>958,543</u>	<u>-</u>
Total	<u><u>\$ 1,593,044</u></u>	<u><u>\$ (309,299)</u></u>	<u><u>\$ 1,283,745</u></u>	<u><u>\$ 325,202</u></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 2019.

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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

Year Ending June 30,	
2019	\$ 383,552
2020	169,726
2021	(109,536)
2022	(118,540)
	<u>\$ 325,202</u>

Note 10 - 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 11 - Other Postemployment Benefits

Plan description – The City of Flat Rock Retiree Medical Plan (the Plan) is a single employer defined benefit plan that is administered by the City and 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. The City obtains health care coverage through private insurers.

Benefit provided – 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. The City Council has the authority to establish and amend benefit terms.

Contributions – The City Council has the authority to establish and amend the contribution requirements of the City and the plan members. The City is on the pay-as-you-go method and does not pre-fund the plan. For the year ended June 30, 2018, the City had benefit payments of \$578,941. Plan members are not required to contribute to the Plan.

Employees covered by benefit terms – At June 30, 2018, the plan membership consisted of the following:

Inactive plan members receiving or entitled to future benefits	46
Covered spouses	25
Active plan members	<u>19</u>
	<u>90</u>

The OPEB plan is closed to new members.

Total OPEB liability – The total OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: Implicit in expected payroll increases.
- Salary increases: 1.0%.
- Investment rate of return: N/A; plan is not pre-funded.
- 20-year Aa Municipal bond rate: 3.00%
- Mortality: RPH-2014 adjusted to 2006 Total Data Set with MP-2018 mortality improvement.
- Medical Inflation Rates:
 - Pre-65: 8.5% graded down ultimately to 4.5%
 - Post-65: 7.0% graded down ultimately to 4.5%

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

Discount rate – The discount rate used to measure the total OPEB liability was 3.0%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates.

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 192,131
Interest on the total OPEB liability	561,166
Experience differences	(625,617)
Changes in actuarial assumptions	3,900,463
Benefit payments and refunds	<u>(578,941)</u>
Net change in total OPEB liability	3,449,202
Total OPEB liability - beginning	<u>18,802,850</u>
Total OPEB liability - ending (a)	<u><u>\$ 22,252,052</u></u>
Covered payroll	<u><u>\$ 1,462,805</u></u>
Total OPEB liability as a percentage of covered payroll	1,521.19%

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.0%) or 1% higher (4.0%) than the current discount rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 26,054,563	\$ 22,252,052	\$ 19,254,000

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if were calculated using healthcare cost trend rates that are 1% lower (7.5%/6.0%) or 1% higher (9.5%/8.0%) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Healthcare Trend Rates</u>	<u>1% Increase</u>
Total OPEB liability	\$ 19,097,911	\$ 22,252,052	\$ 26,250,918

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the year ended June 30, 2018 the employer recognized OPEB expense of \$1,783,123. The employer reported deferred outflows and inflows of resources related to OPEB 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	\$ -	\$ (428,882)	\$ (428,882)	\$ (428,882)
Differences in assumptions	<u>2,673,902</u>	<u>-</u>	<u>2,673,902</u>	<u>2,673,902</u>
Total	<u><u>\$2,673,902</u></u>	<u><u>\$ (428,882)</u></u>	<u><u>\$2,245,020</u></u>	<u><u>\$2,245,020</u></u>

City of Flat Rock, Michigan
Notes to the Financial Statements
June 30, 2018

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

Year Ending June 30,	
2019	\$ 1,029,826
2020	1,029,826
2021	<u>185,368</u>
	<u><u>\$2,245,020</u></u>

Note 12 - 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.

Note 13 - Change in Accounting Principle

As indicated in Note 1, Governmental Accounting Standards Board Statement No. 75 has been adopted. This statement requires the total OPEB liability and OPEB expense to be recorded. The standard requires this change be applied retroactively. The impact of this change is to reduce beginning net position in the governmental activities as of July 1, 2017 by \$7,616,462, restating it from \$(1,882,091) to \$(9,498,553) and in the business-type activities and Water and Sewer Fund by \$4,324,656, restating it from \$10,022,781 to \$5,698,125.

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes				
Property taxes	\$ 4,745,600	\$ 4,745,600	\$ 5,873,129	\$ 1,127,529
Penalties and interest	26,800	26,800	28,988	2,188
Licenses and permits	314,800	787,300	793,239	5,939
Federal grants	-	-	5,026	5,026
State shared revenue	911,900	911,900	926,248	14,348
State grants	867,300	1,312,900	283,426	(1,029,474)
Local contributions	473,500	473,500	455,926	(17,574)
Charges for services	398,300	398,300	310,336	(87,964)
Fines and forfeitures	589,000	589,000	516,568	(72,432)
Interest income	6,000	6,000	12,074	6,074
Rental income	165,000	165,000	163,079	(1,921)
Other revenue	334,800	391,200	390,411	(789)
Sale of fixed assets	31,500	31,500	38,977	7,477
	<u>8,864,500</u>	<u>9,839,000</u>	<u>9,797,427</u>	<u>(41,573)</u>
Total revenues				
Expenditures				
General government				
Legislative	11,700	11,700	11,437	(263)
Manager	35,300	38,400	39,265	865
Judicial	444,000	445,900	446,189	289
Clerk	334,500	335,000	315,494	(19,506)
Treasurer	359,700	359,700	323,898	(35,802)
Assessor	66,500	66,500	52,436	(14,064)
Elections	35,400	35,400	30,318	(5,082)
Buildings and safety	413,300	413,300	375,890	(37,410)
Attorney	102,000	107,000	108,106	1,106
General operations	491,900	491,900	495,522	3,622
	<u>2,294,300</u>	<u>2,304,800</u>	<u>2,198,555</u>	<u>(106,245)</u>
Total general government				

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Public safety				
Police department	\$ 2,882,000	\$ 3,544,300	\$ 3,507,997	\$ (36,303)
Fire department	1,139,300	1,206,000	1,199,234	(6,766)
Total public safety	4,021,300	4,750,300	4,707,231	(43,069)
Public works				
Department of public works	1,574,900	1,574,900	1,538,037	(36,863)
Community and economic development				
Planning	12,000	12,000	5,390	(6,610)
Zoning	12,500	12,500	9,728	(2,772)
Total community and economic development	24,500	24,500	15,118	(9,382)
Recreation and culture				
Parks and recreation	142,200	142,200	163,440	21,240
Capital outlay	92,000	152,000	192,431	40,431
Debt service				
Principal retirement	31,900	31,900	31,840	(60)
Interest and fiscal charges	5,000	5,000	4,926	(74)
Total debt service	36,900	36,900	36,766	(134)
Transfers out	678,400	853,400	849,391	(4,009)
Total expenditures and transfers out	8,864,500	9,839,000	9,700,969	(138,031)
Excess of revenues over expenditures	-	-	96,458	96,458
Fund balance - beginning of year	1,548,454	1,548,454	1,548,454	-
Fund balance - end of year	\$ 1,548,454	\$ 1,548,454	\$ 1,644,912	\$ 96,458

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
Tax Increment Finance Authority
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 920,300	\$ 1,006,500	\$ 1,006,533	\$ 33
Other state grants	1,537,700	2,289,600	2,289,612	12
Interest income	1,000	1,400	1,635	235
Total revenues	<u>2,459,000</u>	<u>3,297,500</u>	<u>3,297,780</u>	<u>280</u>
Expenditures				
Current				
Community and economic development	124,000	133,500	139,797	6,297
Tax refunds	819,700	1,915,600	1,915,577	(23)
Capital outlay	<u>272,000</u>	<u>229,100</u>	<u>229,094</u>	<u>(6)</u>
Total expenditures	<u>1,215,700</u>	<u>2,278,200</u>	<u>2,284,468</u>	<u>6,268</u>
Other financing (uses)				
Transfers out	<u>(1,176,700)</u>	<u>(1,083,600)</u>	<u>(1,085,255)</u>	<u>(1,655)</u>
Excess (deficiency) of revenues over expenditures	66,600	(64,300)	(71,943)	(7,643)
Fund balance - beginning of year	<u>888,967</u>	<u>888,967</u>	<u>888,967</u>	<u>-</u>
Fund balance - end of year	<u>\$ 955,567</u>	<u>\$ 824,667</u>	<u>\$ 817,024</u>	<u>\$ (7,643)</u>

City of Flat Rock, Michigan
Required Supplementary Information
Budgetary Comparison Schedule
Community Center
For the Year Ended June 30, 2018

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Charges for services	\$ 1,546,700	\$ 1,507,400	\$ 1,410,091	\$ (97,309)
Other state grants	23,000	23,000	21,284	(1,716)
Interest income	300	300	340	40
Rental income	200	200	-	(200)
Other revenue	1,900	1,900	1,103	(797)
	<u>1,572,100</u>	<u>1,532,800</u>	<u>1,432,818</u>	<u>(99,982)</u>
Total revenues				
Expenditures				
Current				
Recreation and culture	1,708,200	1,708,200	1,657,595	(50,605)
Capital outlay	-	-	5,818	5,818
	<u>1,708,200</u>	<u>1,708,200</u>	<u>1,663,413</u>	<u>(44,787)</u>
Total expenditures				
Other financing sources (uses)				
Transfers in	150,000	175,000	175,000	-
	<u>13,900</u>	<u>(400)</u>	<u>(55,595)</u>	<u>(55,195)</u>
Excess of revenues (deficiency) over expenditures				
Fund balance - beginning of year	36,374	36,374	36,374	-
Fund balance - end of year (deficit)	<u>\$ 50,274</u>	<u>\$ 35,974</u>	<u>\$ (19,221)</u>	<u>\$ (55,195)</u>

City of Flat Rock
Required Supplementary Information
Other Post Employment Benefits
Schedule of Employer Contributions
June 30, 2018

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	\$ 578,941	\$ 578,941	\$ -	\$ 1,462,805	39.58%

Notes to Schedule of Contributions

Valuation date: June 30, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	11 years
Healthcare cost trend rates	Pre-65: 8.5% grade down to an ultimate 4.5%
	Post-65: 7.0% grade down to an ultimate 4.5%
Salary increases	1.00%
Retirement age	50 to 60
Mortality	RFP-2014 adjusted to 2006 Total data Set with MP-2018 improvement scale

City of Flat Rock
Required Supplementary Information
Other Post Employment Benefits
Schedule of Changes in Total OPEB Liability and Related Ratios
June 30, 2018

Fiscal year ended June 30,	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 192,131
Interest	561,166
Differences between expected and actual experience	(625,617)
Changes in assumptions	3,900,463
Benefit payments	<u>(578,941)</u>
Net change in total OPEB liability	3,449,202
Total OPEB liability - beginning	<u>18,802,850</u>
Total OPEB liability - ending (a)	<u><u>\$ 22,252,052</u></u>
Covered payroll	\$ 1,462,805
Total OPEB liability as a percentage of covered payroll	1,521.19%

*GASB Statement No. 75 was implemented for the fiscal year ended June 30, 2018 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 Employer Contributions
June 30, 2018

Actuarial Valuation Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
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%
12/31/2017	1,011,342	1,011,342	-	3,350,656	30.18%

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, 2018

Fiscal year ended June 30,	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 297,216	\$ 300,883	\$ 305,961	\$ 349,449
Interest on the total pension liability	1,941,237	1,877,792	1,770,704	1,763,834
Experience differences	323,533	251,255	(377,225)	-
Changes in actuarial assumptions	-	-	1,064,893	-
Other charges	-	(3,362)	54,909	-
Benefit payments and refunds	(1,679,080)	(1,584,281)	(1,371,920)	(1,303,169)
Net change in total pension liability	882,906	842,287	1,447,322	810,114
Total pension liability - beginning	24,956,391	24,114,104	22,666,782	21,856,668
Total pension liability - ending (a)	<u>\$ 25,839,297</u>	<u>\$ 24,956,391</u>	<u>\$ 24,114,104</u>	<u>\$ 22,666,782</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 1,011,342	\$ 794,184	\$ 681,482	\$ 650,534
Employee contributions	170,853	161,653	206,917	153,807
Pension plan net investment income (loss)	1,494,359	1,211,087	(170,469)	714,400
Benefit payments and refunds	(1,679,080)	(1,584,281)	(1,371,920)	(1,303,169)
Pension plan administrative expense	(23,693)	(23,942)	(25,093)	(26,132)
Net change in plan fiduciary net position	973,781	558,701	(679,083)	189,440
Plan fiduciary net position - beginning	11,531,028	10,972,327	11,651,410	11,461,970
Plan fiduciary net position - ending (b)	<u>12,504,809</u>	<u>11,531,028</u>	<u>10,972,327</u>	<u>11,651,410</u>
Net pension liability (a-b)	<u>\$ 13,334,488</u>	<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	48.39%	46.20%	45.50%	51.40%
Covered payroll	\$ 3,350,656	\$ 3,210,773	\$ 2,979,142	\$ 3,211,517
Net pension liability as a percentage of covered payroll	397.97%	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, Michigan
Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds									Capital Projects Fund	Debt Service Funds					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	
Assets																
Cash and cash equivalents	\$ -	\$ 63,360	\$ 286,329	\$ 601,316	\$ 221,818	\$ 206,385	\$ -	\$ -	\$ 6,603	\$ 324,465	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,710,276
Receivables																
Taxes	-	-	-	-	234	1,288	-	-	-	-	-	-	-	-	-	1,522
Due from other units of government	3,577	102,026	39,456	-	-	7,500	-	-	-	-	-	-	-	-	-	152,559
Due from other funds	-	-	30,608	-	-	-	-	-	-	-	-	-	-	-	-	30,608
Prepaid items	-	878	878	-	10	60	-	-	-	-	-	-	-	500	1,500	3,826
Total assets	<u>\$ 3,577</u>	<u>\$ 166,264</u>	<u>\$ 357,271</u>	<u>\$ 601,316</u>	<u>\$ 222,062</u>	<u>\$ 215,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,603</u>	<u>\$ 324,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 1,500</u>	<u>\$ 1,898,791</u>
Liabilities																
Accounts payable	\$ -	\$ 459	\$ 1,509	\$ -	\$ 879	\$ 8,435	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,282
Accrued and other liabilities	-	497	1,049	-	444	3,769	-	-	-	-	-	-	-	-	-	5,759
Due to other funds	3,577	30,608	-	51,991	-	-	-	-	-	-	-	-	-	-	-	86,176
Total liabilities	<u>3,577</u>	<u>31,564</u>	<u>2,558</u>	<u>51,991</u>	<u>1,323</u>	<u>12,204</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,217</u>
Fund balances																
Non-spendable																
Prepaid items	-	878	878	-	10	60	-	-	-	-	-	-	-	500	1,500	3,826
Restricted for																
Major street	-	133,822	-	-	-	-	-	-	-	-	-	-	-	-	-	133,822
Local street	-	-	353,835	-	-	-	-	-	-	-	-	-	-	-	-	353,835
Downtown development authority	-	-	-	549,325	-	-	-	-	-	-	-	-	-	-	-	549,325
Historical district	-	-	-	-	220,729	-	-	-	-	-	-	-	-	-	-	220,729
Library	-	-	-	-	-	202,969	-	-	-	-	-	-	-	-	-	202,969
Capital projects	-	-	-	-	-	-	-	-	-	324,465	-	-	-	-	-	324,465
Other special revenue projects	-	-	-	-	-	-	-	-	6,603	-	-	-	-	-	-	6,603
Total fund balances (deficit)	<u>-</u>	<u>134,700</u>	<u>354,713</u>	<u>549,325</u>	<u>220,739</u>	<u>203,029</u>	<u>-</u>	<u>-</u>	<u>6,603</u>	<u>324,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>	<u>1,500</u>	<u>1,795,574</u>
Total liabilities, and fund balances	<u>\$ 3,577</u>	<u>\$ 166,264</u>	<u>\$ 357,271</u>	<u>\$ 601,316</u>	<u>\$ 222,062</u>	<u>\$ 215,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,603</u>	<u>\$ 324,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 1,500</u>	<u>\$ 1,898,791</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, 2018

	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	\$ -	\$ -	\$ -	\$ 555,764	\$ 81,027	\$ 450,855	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,087,646
Federal grants	92,984	-	-	-	-	-	-	-	3,241	-	-	-	-	-	-	96,225
State shared revenue	-	596,445	230,697	-	-	9,129	-	-	-	-	-	-	-	-	-	836,271
Other state grants	-	-	-	57,003	4,841	19,323	-	263,310	-	-	-	-	-	-	-	344,477
Local contributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	-	38	455	4,534	499	413	-	-	19	764	-	-	-	-	-	6,722
Other revenue	-	-	60,450	3,700	-	28,606	-	-	-	-	-	-	-	-	-	92,756
Total revenues	92,984	596,483	291,602	621,001	86,367	508,326	-	263,310	3,260	764	-	-	-	-	-	2,464,097
Expenditures																
Current																
Public safety	-	-	-	-	-	-	-	-	814	-	-	-	-	-	-	814
Public works	-	250,772	404,685	-	-	-	-	1,050	-	-	-	-	-	-	-	656,507
Community and economic development	25,900	-	-	391,304	63,635	-	-	-	4,950	-	-	-	-	-	-	485,789
Library	-	-	-	-	-	377,723	-	-	-	-	-	-	-	-	-	377,723
Capital outlay	67,084	-	-	-	-	-	-	314,910	-	8,114	-	-	-	-	-	390,108
Debt service																
Principal retirement	-	-	-	-	-	-	-	-	-	-	170,000	155,000	345,000	125,000	705,000	1,500,000
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	73,623	4,160	59,923	109,688	288,928	536,322
Total expenditures	92,984	250,772	404,685	391,304	63,635	377,723	-	315,960	5,764	8,114	243,623	159,160	404,923	234,688	993,928	3,947,263
Excess (deficiency) of revenues over expenditures	-	345,711	(113,083)	229,697	22,732	130,603	-	(52,650)	(2,504)	(7,350)	(243,623)	(159,160)	(404,923)	(234,688)	(993,928)	(1,483,166)
Other financing sources (uses)																
Transfers in	-	149,571	378,934	-	-	-	64,629	78,490	-	-	243,623	158,410	404,923	234,688	993,928	2,707,196
Transfers out	-	(493,902)	(158,504)	(58,244)	-	(158,410)	-	-	-	-	-	-	-	-	-	(869,060)
Total other financing sources (uses)	-	(344,331)	220,430	(58,244)	-	(158,410)	64,629	78,490	-	-	243,623	158,410	404,923	234,688	993,928	1,838,136
Net change in fund balance	-	1,380	107,347	171,453	22,732	(27,807)	64,629	25,840	(2,504)	(7,350)	-	(750)	-	-	-	354,970
Fund balance - beginning 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
Fund balance - end of year	\$ -	\$ 134,700	\$ 354,713	\$ 549,325	\$ 220,739	\$ 203,029	\$ -	\$ -	\$ 6,603	\$ 324,465	\$ -	\$ -	\$ -	\$ 500	\$ 1,500	\$ 1,795,574

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2018

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities					
Bonds and notes payable					
Building Authority Bond, Series 2006	8/1/2018	\$ 360,000	\$ 25,830	\$ 17,730	\$ 403,560
Date of issue September 2006	8/1/2019	380,000	17,730	9,085	406,815
amount of issue \$3,415,000	8/1/2020	<u>395,000</u>	<u>9,085</u>	<u>-</u>	<u>404,085</u>
Interest due August 1 and February 1					
		<u>\$ 1,135,000</u>	<u>\$ 52,645</u>	<u>\$ 26,815</u>	<u>\$ 1,214,460</u>
Tax Increment Finance Authority	10/1/2018	\$ 105,000	\$ 12,725	\$ 11,675	\$ 129,400
2015 Limited Tax Development Bonds	10/1/2019	110,000	11,675	10,575	132,250
Date of issue May 2015	10/1/2020	110,000	10,575	8,925	129,500
amount of issue \$1,155,000	10/1/2021	110,000	8,925	7,275	126,200
Interest due October 1 and April 1	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	<u>125,000</u>	<u>1,875</u>	<u>-</u>	<u>126,875</u>
		<u>\$ 920,000</u>	<u>\$ 62,200</u>	<u>\$ 49,475</u>	<u>\$ 1,031,675</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2018

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Tax Increment Finance Authority	10/1/2018	\$ 290,000	\$ 71,759	\$ 61,681	\$ 423,440
Limited Tax Development Bonds Series 2006A	10/1/2019	310,000	61,681	50,909	422,590
Date of issue August 2006	10/1/2020	330,000	50,909	39,441	420,350
amount of issue \$4,270,000	10/1/2021	355,000	39,441	27,105	421,546
Interest due October 1 and April 1	10/1/2022	375,000	27,105	14,074	416,179
	10/1/2023	<u>405,000</u>	<u>14,074</u>	<u>-</u>	<u>419,074</u>
		<u>\$ 2,065,000</u>	<u>\$ 264,969</u>	<u>\$ 193,210</u>	<u>\$ 2,523,179</u>
 Tax Increment Finance Authority	10/1/2018	\$ 335,000	\$ 50,301	\$ 42,764	\$ 428,065
Limited Tax Development Bonds Series 2006B	10/1/2019	345,000	42,764	34,786	422,550
Date of issue August 2006	10/1/2020	355,000	34,786	26,576	416,362
amount of issue \$5,675,000	10/1/2021	360,000	26,576	18,026	404,602
Interest due October 1 and April 1	10/1/2022	375,000	18,026	9,120	402,146
	10/1/2023	<u>380,000</u>	<u>9,120</u>	<u>-</u>	<u>389,120</u>
		<u>\$ 2,150,000</u>	<u>\$ 181,573</u>	<u>\$ 131,272</u>	<u>\$ 2,462,845</u>
 Capital Improvement Bonds	8/1/2018	\$ 180,000	\$ 34,843	\$ 31,243	\$ 246,086
2010 Limited Tax General Obligation	8/1/2019	190,000	31,243	27,300	248,543
Date of issue September 2010	8/1/2020	200,000	27,300	23,000	250,300
amount of issue \$2,500,000	8/1/2021	210,000	23,000	17,750	250,750
Interest due August 1 and February 1	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	<u>250,000</u>	<u>6,250</u>	<u>-</u>	<u>256,250</u>
		<u>\$ 1,490,000</u>	<u>\$ 152,511</u>	<u>\$ 117,668</u>	<u>\$ 1,760,179</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2018

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Capital Improvement Bonds	10/1/2018	\$ 125,000	\$ 53,656	\$ 51,781	\$ 230,437
2015 Limited Tax General Obligation	10/1/2019	125,000	51,781	49,906	226,687
Date of issue May 2015	10/1/2020	150,000	49,906	48,312	248,218
amount of issue \$3,500,000	10/1/2021	150,000	48,312	46,718	245,030
Interest due October 1 and April 1	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>\$ 3,150,000</u>	<u>\$ 568,678</u>	<u>\$ 515,022</u>	<u>\$ 4,233,700</u>
Total bonds and notes payable		<u>\$ 10,910,000</u>	<u>\$ 1,282,576</u>	<u>\$ 1,033,462</u>	<u>\$ 13,226,038</u>
Installment Purchase - ambulance	10/1/2018	\$ 32,870	\$ 2,168	\$ -	\$ 35,038
Date of issue October 2015	10/1/2019	33,930	1,101	-	35,031
amount of issue \$164,011					
Interest due October 1		<u>\$ 66,800</u>	<u>\$ 3,269</u>	<u>\$ -</u>	<u>\$ 70,069</u>
Total governmental activities		<u>\$ 10,976,800</u>	<u>\$ 1,285,845</u>	<u>\$ 1,033,462</u>	<u>\$ 13,296,107</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2018

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Business Type Activities					
Bonds and notes payable					
South Huron Valley Utility Authority	10/1/2018	\$ 189,297	\$ 6,537	\$ 4,407	\$ 200,241
Sewer System Plant Acquisition Bonds	10/1/2019	193,599	4,407	2,229	200,235
Date of issue September 1998	10/1/2020	<u>198,163</u>	<u>2,229</u>	<u>-</u>	<u>200,392</u>
amount of issue \$3,271,516;					
Flat Rock Share of \$26,615,000		<u>\$ 581,059</u>	<u>\$ 13,173</u>	<u>\$ 6,636</u>	<u>\$ 600,868</u>
Interest due October 1 and April 1					
South Huron Valley Utility Authority	4/1/2019	\$ 122,486	\$ 11,293	\$ 11,293	\$ 145,072
2004 Sewer System Plant Expansion	4/1/2020	126,314	9,994	9,994	146,302
Date of issue April 2004	4/1/2021	128,866	8,649	8,649	146,164
amount of issue \$2,352,760;	4/1/2022	131,418	7,280	7,280	145,978
Flat Rock Share of \$9,220,000	4/1/2023	133,970	5,883	5,883	145,736
Interest due October 1 and April 1	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	<u>142,900</u>	<u>1,517</u>	<u>1,517</u>	<u>145,934</u>
		<u>\$ 1,062,824</u>	<u>\$ 52,086</u>	<u>\$ 52,086</u>	<u>\$ 1,166,996</u>
South Huron Valley Utility Authority	5/1/2019	\$ 19,189	\$ 8,615	\$ 8,615	\$ 36,419
2010 Sewer System Improvements	5/1/2020	19,189	8,106	8,106	35,401
Date of issue May 2010	5/1/2021	21,747	7,598	7,598	36,943
amount of issue \$409,360;	5/1/2022	20,468	7,021	7,021	34,510
Flat Rock Share of \$1,600,000	5/1/2023	21,747	6,479	6,479	34,705
Interest due November 1 and May 1	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	<u>34,539</u>	<u>1,101</u>	<u>1,101</u>	<u>36,741</u>
		<u>\$ 295,507</u>	<u>\$ 63,816</u>	<u>\$ 63,816</u>	<u>\$ 423,139</u>

City of Flat Rock, Michigan
Other Supplementary Information
Schedule of Indebtedness
June 30, 2018

Description	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
South Huron Valley Utility Authority	4/1/2019	\$ 26,087	\$ 4,912	\$ 4,912	\$ 35,911
2011 Sewer System Improvements	4/1/2020	26,928	4,586	4,586	36,100
Date of issue April 2011	4/1/2021	26,928	4,250	4,250	35,428
amount of issue \$537,073;	4/1/2022	27,770	3,913	3,913	35,596
Flat Rock Share of \$3,310,000	4/1/2023	28,611	3,566	3,566	35,743
Interest due October 1 and April 1	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>\$ 393,921</u>	<u>\$ 36,027</u>	<u>\$ 36,027</u>	<u>\$ 465,975</u>
South Huron Valley Utility Authority	4/11/2019	\$ 89,683	\$ 799	\$ 798	\$ 91,280
2014 Sewer System Improvements					
Date of issue May 2014					
amount of issue \$448,602;					
Flat Rock Share of \$1,540,000					
Interest due October 11 and April 11					
South Huron Valley Utility Authority	5/1/2019	\$ 59,295	\$ 924	\$ 924	\$ 61,143
2016 Sewer System Improvements	5/1/2020	59,295	809	809	60,913
Date of issue November 2016	5/1/2021	59,295	693	693	60,681
amount of issue \$592,954;	5/1/2022	59,295	578	578	60,451
Flat Rock Share of \$1,880,000	5/1/2023	59,295	462	462	60,219
Interest due November 1 and May 1	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>\$ 474,362</u>	<u>\$ 4,160</u>	<u>\$ 4,160</u>	<u>\$ 482,682</u>
Vactor Truck 2017	11/13/2018	\$ 22,834	\$ 7,559	\$ -	\$ 30,393
Date of issue November 2017	11/13/2019	23,556	6,837	-	30,393
amount of issue \$269,596;	11/13/2020	24,300	6,093	-	30,393
Interest due November 13	11/13/2021	25,068	5,325	-	30,393
	11/13/2022	143,445	4,533	-	147,978
		<u>\$ 239,203</u>	<u>\$ 30,347</u>	<u>\$ -</u>	<u>\$ 269,550</u>
Total business-type activities		<u>\$ 3,136,559</u>	<u>\$ 200,408</u>	<u>\$ 163,523</u>	<u>\$ 3,500,490</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
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
2018	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
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
2018	8.00	-	9.50	9.75



800.968.0010 | yeoandyeo.com

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 the City of Flat Rock, Michigan as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Flat Rock, Michigan's basic financial statements, and have issued our report thereon dated December 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Flat Rock, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2018-001.

City of Flat Rock, Michigan's Response to Finding and Corrective Action Plan

The City of Flat Rock, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses and corrective action plan. The City of Flat Rock, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 20, 2018

The City of Flat Rock, Michigan
Schedule of Findings and Responses
June 30, 2018

Finding 2018-001 – Noncompliance – Deficit Fund Balance

Criteria:	Municipalities are required to maintain positive fund balance.
Condition:	The Community Center ended the year with an unassigned deficit.
Cause and Effect:	The Community Center did not adhere to its budget. The effect was going into a fund balance deficit of \$19,221.
Recommendation:	We recommend the City create a deficit elimination plan as required by the State of Michigan. The plan should follow all guidelines and requirements set forth by the State. Additionally, we recommend a higher level of scrutiny go into the development of the budget for the Community Center to ensure fund balance is added until the deficit is eliminated. Furthermore, we recommend the budget is monitored on a monthly basis.
Views of Responsible Officials:	Management agrees with the finding.
Corrective Action Plan:	See attached corrective action plan.



December 20, 2018

State of Michigan
Department of Treasury
Local Government Financial Services Division

RE: Corrective Action Plan, 2018 Fiscal Year Audit Finding 2018-001, Noncompliance –
Deficit Fund Balance (Community Center Operating Fund)

To whom it may concern:

I acknowledge the deficit of \$19,222 in the City of Flat Rock's Community Center Operating Fund for the fiscal year ended June 30, 2018. This deficit was created due to budgetary expectations not being achieved and lack of corresponding General Fund transfers to eliminate any Deficit Fund Balance. In the future, the Community Center Operating Fund budget will be developed with more reasonable outcomes and reviewed regularly in order to take necessary actions to insure no future Deficit Fund Balances.

In accordance with PA 140 of 1971 and Numbered Letter 2016-1, a Deficit Elimination Plan will be approved by City Council on January 7, 2019 and submitted to the Michigan Department of Treasury, thereafter. This Deficit Elimination Plan will primarily consist of increasing the current annual transfer from General Fund to the Community Center Operating Fund to offset the prior year's Deficit Fund Balance.

If there are any questions or need for additional information, please feel free to contact me.

Best Regards,

Brian J. Marciniak

Brian J. Marciniak, CPA
Treasurer/CFO

MAYOR, Jonathan D. Dropiewski
TREASURER/CFO, Brian J. Marciniak, CPA
CITY CLERK, Meaghan K. Bachman
ATTORNEY, Grunow & Associates, PLLC
ASSESSOR, Eric Dunlap - WCA, LLC

COUNCILMEMBERS

Kenneth R. Wrobel, Mayor Pro-Tempore
James E. Martin John E. Bergeron
Walter J. Little Ricky L. Tefend
Mark R. Maul

