

# **City of Swartz Creek, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2017**

# City of Swartz Creek, Michigan

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## Independent Auditor's Report

To the City Council  
City of Swartz Creek, Michigan

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City of Swartz Creek, Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan as of June 30, 2017 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council  
City of Swartz Creek, Michigan

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, 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, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Swartz Creek, Michigan's basic financial statements. The other supplemental 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 supplemental 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental 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.

*Plante & Moran, PLLC*

October 26, 2017

# City of Swartz Creek, Michigan

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## Management's Discussion and Analysis

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

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2017:

- The City's total net position is approximately \$28.1 million.
- The City's overall unrestricted net position is approximately \$5.0 million.
- The City's General Fund revenue exceeded expenditures by \$490,742 before transfers in and out. After transfers in and out, the net increase in fund balance was \$311,643, leaving the General Fund with a fund balance of \$1,938,101.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Swartz Creek, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The following table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior year:

	Governmental Activities			Percent Change
	2016	2017	Change	
<b>Assets</b>				
Other assets	\$ 4,002,973	\$ 6,286,686	\$ 2,283,713	57%
Capital assets	<u>11,855,173</u>	<u>11,500,123</u>	<u>(355,050)</u>	-3%
Total assets	15,858,146	17,786,809	1,928,663	12%
<b>Deferred Outflows of Resources</b>	1,393,517	434,172	(959,345)	-69%
<b>Liabilities</b>				
Current liabilities	550,038	545,165	(4,873)	-1%
Long-term liabilities	<u>2,794,377</u>	<u>2,950,836</u>	<u>156,459</u>	6%
Total liabilities	3,344,415	3,496,001	151,586	5%
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>321,129</u>	<u>321,129</u>	100%
<b>Net Position</b>				
Net investment in capital assets	11,460,173	11,180,123	(280,050)	-2%
Restricted	1,166,449	1,543,361	376,912	32%
Unrestricted	<u>1,280,626</u>	<u>1,680,367</u>	<u>399,741</u>	31%
Total net position	<u><b>\$ 13,907,248</b></u>	<u><b>\$ 14,403,851</b></u>	<u><b>\$ 496,603</b></u>	4%

The governmental net position increased slightly from a year ago, from approximately \$13.91 million to approximately \$14.40 million. In comparison, last year's net position increased by less than 1 percent.

Current liabilities included payments in process for road construction projects on Worchester, Chesterfield, Winston, and Daval Drives.

Long-term liability increases were due to increases in the net pension liability. The increase resulted from the five-year experience study conducted by the Municipal Employees' Retirement System of Michigan (MERS). The results of this study apply to the employees and retirees under the City of Swartz Creek Defined Benefit Retirement Plan.

# City of Swartz Creek, Michigan

## Management's Discussion and Analysis (Continued)

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$399,741 for the governmental activities. This represents an increase of approximately 31 percent. The current level of unrestricted net position for our governmental activities stands at \$1,680,367, or about 45 percent of expenditures.

	Governmental Activities			Percent Change
	2016	2017	Change	
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 542,707	\$ 435,936	\$ (106,771)	-20%
Operating grants	484,931	539,641	54,710	11%
Capital grants and contributions	-	-	-	0%
General revenue:				
Property taxes	1,746,945	2,321,046	574,101	33%
State-shared revenue	485,600	590,379	104,779	22%
Investment earnings	8,180	10,741	2,561	31%
Other revenue	302,284	302,023	(261)	0%
Total revenue	3,570,647	4,199,766	629,119	18%
<b>Program Expenses</b>				
General government	912,470	886,386	(26,084)	-3%
Legislative	17,229	15,517	(1,712)	-10%
Public safety	1,234,383	1,355,300	120,917	10%
Public works	1,320,807	1,325,257	4,450	0%
Community and economic development	20,524	1,724	(18,800)	-92%
Recreation and cultural	98,956	96,324	(2,632)	-3%
Interest on long-term debt	26,630	22,655	(3,975)	-15%
Total expenses	3,630,999	3,703,163	72,164	2%
<b>Transfers</b>	(3,650)	-	3,650	-100%
<b>Change in Net Position</b>	<b>\$ (64,002)</b>	<b>\$ 496,603</b>	<b>\$ 560,605</b>	<b>-876%</b>

The City's total governmental revenue increased by approximately \$629,000. The majority of this can be attributed to the first year of the local streets millage levy in the current year.

The property tax revenue is composed of the following: general operating revenue of \$696,308, garbage collection revenue of \$369,328, public safety special assessment revenue of \$646,346, and local street millage revenue of \$605,873, with the remainder of \$3,191 collected on delinquent tax obligations during the fiscal year.

# City of Swartz Creek, Michigan

## Management's Discussion and Analysis (Continued)

Expenses increased by about \$72,000 during the year. The majority of this increase was due to an increase in public safety expenses of approximately \$121,000. The increase in public safety expenses was due to payments to the Metro Police Authority of Genesee County.

### Business-type Activities

The following table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior year:

	Business-type Activities			Percent Change
	2016	2017	Change	
<b>Assets</b>				
Other assets	\$ 5,076,515	\$ 4,459,198	\$ (617,317)	-12%
Capital assets	<u>9,591,336</u>	<u>10,441,223</u>	<u>849,887</u>	9%
Total assets	14,667,851	14,900,421	232,570	2%
<b>Deferred Outflows of Resources</b>	110,185	28,434	(81,751)	-74%
<b>Liabilities</b>				
Current liabilities	400,623	526,872	126,249	32%
Long-term liabilities	<u>774,929</u>	<u>647,782</u>	<u>(127,147)</u>	-16%
Total liabilities	<u>1,175,552</u>	<u>1,174,654</u>	<u>(898)</u>	0%
<b>Deferred Inflows of Resources</b>	-	21,030	21,030	100%
<b>Net Position</b>				
Net investment in capital assets	9,096,590	10,441,223	1,344,633	15%
Unrestricted	<u>4,505,894</u>	<u>3,291,948</u>	<u>(1,213,946)</u>	-27%
Total net position	<u>\$ 13,602,484</u>	<u>\$ 13,733,171</u>	<u>\$ 130,687</u>	1%

	Business-type Activities			Percent Change
	2016	2017	Change	
Operating revenue	\$ 3,282,047	\$ 3,541,548	\$ 259,501	8%
Operating expenses - Other than depreciation	2,855,761	2,974,837	119,076	4%
Depreciation	<u>429,971</u>	<u>447,091</u>	<u>17,120</u>	4%
Operating (loss) income	(3,685)	119,620	123,305	-3346%
Interest income	10,948	14,903	3,955	36%
Interest expense	22,436	24,167	1,731	8%
Capital contributions	90,850	20,350	(70,500)	-78%
Debt service charge	-	19	19	100%
Transfers	<u>3,650</u>	<u>-</u>	<u>(3,650)</u>	-100%
Change in net position	<u>\$ 79,327</u>	<u>\$ 130,687</u>	<u>\$ 51,360</u>	65%



# City of Swartz Creek, Michigan

## Management's Discussion and Analysis (Continued)

The capital assets increase was due to water main replacements, sewer relining, and lift station renovation projects in the current year.

Operating revenue increased by \$259,501 due to large customer meter replacement and upgrades, customer billing audits and updates, and new residential and commercial construction. Expenses increased due to a water rate increase from the county which was not passed along to city residents. The capital contributions decreased from 2016 when a developer donated Springbrook East and Heritage Village water and sewer lines valued at approximately \$5.1 million.

The net position of business-type activities increased 1 percent from a year ago, from approximately \$13.6 million to approximately \$13.7 million.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - decreased by approximately \$1.2 million. This represents a decrease of approximately 27 percent. The current level of unrestricted net position stands at approximately \$3.3 million, or about 111 percent of operating expenditures.

### **The City's Funds**

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2017 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Garbage Fund, and the Local Streets Millage Fund.

The General Fund pays for most of the City's governmental services such as public safety, which includes police and fire services. Governmental services also include street lights, all city parks, community promotions, elections, assessing, building and zoning, and other administrative departments. The most significant is public works activities, which includes major and local streets. Public works activities incurred expenses of approximately \$1.5 million in 2017, followed closely by public safety at approximately \$1.2 million.

The most significant increase related to street repairs being completed.

# City of Swartz Creek, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the total governmental fund activity, on a modified accrual basis:

	Governmental Funds			Percent Change
	2016	2017	Change	
<b>Revenue</b>				
Property taxes	\$ 1,762,081	\$ 2,319,197	\$ 557,116	32%
Charges for services	194,375	124,648	(69,727)	-36%
Licenses and permits	253,274	250,309	(2,965)	-1%
State-shared revenue	488,888	594,371	105,483	22%
Act 51 funding	411,524	472,635	61,111	15%
Federal, state, and local grants	73,257	64,500	(8,757)	-12%
Fines and forfeitures	12,815	11,228	(1,587)	-12%
Interest and rentals	7,386	10,002	2,616	35%
Special assessments	45,181	37,473	(7,708)	-17%
Other	369,617	182,197	(187,420)	-51%
Total revenue	3,618,398	4,066,560	448,162	12%
<b>Expenditures</b>				
Current:				
General government	532,205	381,668	(150,537)	-28%
Legislative	17,229	15,517	(1,712)	-10%
Public safety	1,268,814	1,229,729	(39,085)	-3%
Public works	1,604,181	1,459,791	(144,390)	-9%
Community and economic development	20,524	1,724	(18,800)	-92%
Recreation and culture	144,420	163,709	19,289	13%
Debt service	101,630	97,655	(3,975)	-4%
Total expenditures	3,689,003	3,349,793	(339,210)	-9%
<b>Excess of Revenue (Under) Over Expenditures</b>	(70,605)	716,767	787,372	-1115%
<b>Other Financing (Uses) Sources</b>				
Transfers - Net	(3,650)	-	3,650	-100%
Issuance of debt/debt defeasance	-	1,500,000	1,500,000	100%
Total other financing (uses) sources	(3,650)	1,500,000	1,503,650	100%
<b>Net Change in Fund Balances</b>	(74,255)	2,216,767	2,291,022	-3085%
<b>Fund Balances - Beginning of year</b>	2,913,373	2,839,118	(74,255)	-3%
<b>Fund Balances - End of year</b>	<b>\$ 2,839,118</b>	<b>\$ 5,055,885</b>	<b>\$ 2,216,767</b>	78%

# **City of Swartz Creek, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall stayed below budget, resulting in total expenditures of approximately \$111,000 below budget. Revenue was slightly lower than anticipated. These events caused the General Fund's fund balance to increase from approximately \$1.62 million a year ago to approximately \$1.94 million at June 30, 2017.

### **Capital Asset and Debt Administration**

At the end of 2017, the City had approximately \$19.7 million invested in a broad range of capital assets, including land, buildings, equipment, and water and sewer lines. In the past year, the City has invested significantly in roads and water and sewer lines within the City. Additional information on the City's capital assets can be found in Note 4 of this report.

Also at the end of 2017, the City had \$3,808,233 in long-term liabilities. A total of \$2.27 million of long-term liabilities is the balance on the City's long-term debt bonds. The remaining \$1,538,233 is related to accumulated compensated absences of \$46,235, other postemployment benefits of \$400,172, and net pension liability of \$1,091,826.

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

Overall, we expect no significant change in total revenue. Property tax revenue is expected to be unchanged. Due to the phase-out of taxable personal property, we expect to see a continued reduction in personal property revenue. In the next fiscal year, the City will complete the road work on Worchester, Chesterfield, and Winston Drives as well as complete water main reconstruction in those areas. Road work and water main replacement will continue on Daval Drive during the next fiscal year along with preventive maintenance on other streets as part of the City's 20-year street improvement plan. The City Council approved payment in the next fiscal year for the police unfunded liability of \$665,914. The police officers are now employees of the Metro Police Authority.

### **Contacting the City of Swartz Creek, Michigan's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# City of Swartz Creek, Michigan

## Statement of Net Position June 30, 2017

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 3,510,499	\$ 2,143,903	\$ 5,654,402	\$ 99,065
Investments (Note 3)	425,000	825,000	1,250,000	-
Receivables:				
Property taxes receivable	12,710	-	12,710	-
Receivables from sales to customers on account	-	993,456	993,456	-
Accrued interest receivable	2,540	3,606	6,146	-
Other receivables	21,338	-	21,338	745
Due from other governmental units	178,102	-	178,102	-
Inventory	-	24,446	24,446	-
Prepaid expenses and other assets	151,658	18,787	170,445	-
Restricted cash - Unspent bond proceeds (Note 1)	1,500,000	450,000	1,950,000	-
Investment in joint ventures (Note 8)	465,834	-	465,834	-
Land held for resale	19,005	-	19,005	-
Capital assets (Note 4):				
Assets not subject to depreciation	1,779,702	732,186	2,511,888	-
Assets subject to depreciation	9,720,421	9,709,037	19,429,458	-
<b>Total assets</b>	<b>17,786,809</b>	<b>14,900,421</b>	<b>32,687,230</b>	<b>99,810</b>
<b>Deferred Outflows of Resources</b> (Note 9)	434,172	28,434	462,606	-
<b>Liabilities</b>				
Accounts payable	199,225	196,283	395,508	2,954
Due to other governmental units	-	300,401	300,401	-
Deposits payable	-	20,900	20,900	-
Accrued liabilities and other	21,325	9,288	30,613	-
Unearned revenue (Note 1)	115,000	-	115,000	1,000
Noncurrent liabilities:				
Due within one year (Note 6):				
Compensated absences	26,224	20,011	46,235	-
Current portion of long-term debt	209,615	40,385	250,000	-
Due in more than one year:				
Net OPEB obligation (Note 11)	289,511	110,661	400,172	-
Net pension liability (Note 9)	1,024,716	67,110	1,091,826	-
Long-term debt (Note 6)	1,610,385	409,615	2,020,000	-
<b>Total liabilities</b>	<b>3,496,001</b>	<b>1,174,654</b>	<b>4,670,655</b>	<b>3,954</b>
<b>Deferred Inflows of Resources</b> (Note 9)	321,129	21,030	342,159	-
<b>Net Position</b>				
Net investment in capital assets	11,180,123	10,441,223	21,621,346	-
Restricted for:				
Streets	1,203,257	-	1,203,257	-
Garbage collection	305,860	-	305,860	-
Weed control and sidewalks	34,244	-	34,244	-
Unrestricted	1,680,367	3,291,948	4,972,315	95,856
<b>Total net position</b>	<b>\$ 14,403,851</b>	<b>\$ 13,733,171</b>	<b>\$ 28,137,022</b>	<b>\$ 95,856</b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Swartz Creek, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 886,386	\$ 272,869	\$ 2,500	\$ -
Legislative	15,517	-	-	-
Public safety	1,355,300	101,261	2,506	-
Public works	1,325,257	37,708	534,635	-
Community and economic development	1,724	-	-	-
Recreation and culture	96,324	24,098	-	-
Interest on long-term debt	22,655	-	-	-
Total governmental activities	3,703,163	435,936	539,641	-
Business-type activities:				
Water Fund	2,254,866	2,251,181	-	15,750
Sewer Fund	1,191,229	1,290,348	-	4,600
Total business-type activities	3,446,095	3,541,529	-	20,350
Total primary government	<u>\$ 7,149,258</u>	<u>\$ 3,977,465</u>	<u>\$ 539,641</u>	<u>\$ 20,350</u>
Component unit - Downtown Development Authority	<u>\$ 25,557</u>	<u>\$ -</u>	<u>\$ 2,400</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income				
Cable franchise fees (unrestricted)				
Other miscellaneous income				
Income from joint venture				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2017**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (611,017)	\$ -	\$ (611,017)	\$ -
(15,517)	-	(15,517)	-
(1,251,533)	-	(1,251,533)	-
(752,914)	-	(752,914)	-
(1,724)	-	(1,724)	-
(72,226)	-	(72,226)	-
(22,655)	-	(22,655)	-
(2,727,586)	-	(2,727,586)	-
-	12,065	12,065	-
-	103,719	103,719	-
-	115,784	115,784	-
(2,727,586)	115,784	(2,611,802)	-
-	-	-	(23,157)
2,321,046	-	2,321,046	62,223
590,379	-	590,379	-
10,741	14,903	25,644	85
95,886	-	95,886	-
44,714	-	44,714	745
161,423	-	161,423	-
3,224,189	14,903	3,239,092	63,053
496,603	130,687	627,290	39,896
13,907,248	13,602,484	27,509,732	55,960
<b>\$ 14,403,851</b>	<b>\$ 13,733,171</b>	<b>\$ 28,137,022</b>	<b>\$ 95,856</b>

# City of Swartz Creek, Michigan

## Governmental Funds Balance Sheet June 30, 2017

	Major Special Revenue Funds					Nonmajor	Total
	General Fund	Major Streets	Local Streets	Garbage Collection	Local Streets Millage	Governmental Funds	
<b>Assets</b>							
Cash and cash equivalents (Note 3)	\$ 1,521,142	\$ 593,694	\$ 599,840	\$ 248,694	\$ 21,436	\$ 112,343	\$ 3,097,149
Investments (Note 3)	325,000	25,000	-	75,000	-	-	425,000
Receivables:							
Property taxes receivable	7,701	-	-	3,454	1,555	-	12,710
Accrued interest receivable	1,967	150	50	373	-	-	2,540
Other receivables	4,855	10,510	-	-	-	5,973	21,338
Due from other governmental units	87,794	68,505	21,803	-	-	-	178,102
Prepaid expenses and other assets	135,482	4,443	1,561	1,731	-	-	143,217
Land held for resale	19,005	-	-	-	-	-	19,005
Restricted cash - Unspent bond proceeds (Note 1)	-	-	-	-	1,500,000	-	1,500,000
<b>Total assets</b>	<b>\$ 2,102,946</b>	<b>\$ 702,302</b>	<b>\$ 623,254</b>	<b>\$ 329,252</b>	<b>\$ 1,522,991</b>	<b>\$ 118,316</b>	<b>\$ 5,399,061</b>
<b>Liabilities</b>							
Accounts payable	\$ 30,354	\$ 31,123	\$ 112,244	\$ 22,086	\$ -	\$ 40	\$ 195,847
Accrued liabilities and other	11,353	1,928	995	1,306	-	-	15,582
Unearned revenue (Note 1)	115,000	-	-	-	-	-	115,000
<b>Total liabilities</b>	<b>156,707</b>	<b>33,051</b>	<b>113,239</b>	<b>23,392</b>	<b>-</b>	<b>40</b>	<b>326,429</b>
<b>Deferred Inflows of Resources (Note 1)</b>	<b>8,138</b>	<b>-</b>	<b>-</b>	<b>3,454</b>	<b>1,555</b>	<b>3,600</b>	<b>16,747</b>
<b>Fund Balances</b>							
Nonspendable:							
Prepays	135,482	4,443	1,561	1,731	-	-	143,217
Land held for resale	19,005	-	-	-	-	-	19,005
Restricted:							
Roads	1,000	664,808	508,454	-	1,521,436	-	2,695,698
Garbage collection	-	-	-	300,675	-	-	300,675
Weed control and sidewalks	-	-	-	-	-	30,644	30,644
Committed for Police MERS contribution	665,914	-	-	-	-	-	665,914
Assigned:							
Debt service	-	-	-	-	-	3,744	3,744
Capital projects	-	-	-	-	-	80,288	80,288
Unassigned	1,116,700	-	-	-	-	-	1,116,700
<b>Total fund balances</b>	<b>1,938,101</b>	<b>669,251</b>	<b>510,015</b>	<b>302,406</b>	<b>1,521,436</b>	<b>114,676</b>	<b>5,055,885</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 2,102,946</b>	<b>\$ 702,302</b>	<b>\$ 623,254</b>	<b>\$ 329,252</b>	<b>\$ 1,522,991</b>	<b>\$ 118,316</b>	<b>\$ 5,399,061</b>

The Notes to Financial Statements are an Integral Part of this Statement.

# City of Swartz Creek, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2017

<b>Fund Balance Reported in Governmental Funds</b>	\$ 5,055,885
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	11,463,810
Investments in joint ventures are not financial resources and are not reported in the funds	465,834
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	3,600
Delinquent property taxes and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	13,147
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(1,820,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(5,588)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(24,370)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(289,511)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(988,739)
Deferred outflows of resources related to pensions	418,928
Deferred inflows of resources related to pensions	(309,854)
Internal Service Funds are included as part of governmental activities	<u>420,709</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 14,403,851</u></b>



# City of Swartz Creek, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	Major Special Revenue Funds					Nonmajor Governmental Funds	Total
	General Fund	Major Streets	Local Streets	Garbage Collection	Local Streets Millage		
<b>Revenue</b>							
Property taxes	\$ 1,343,404	\$ -	\$ -	\$ 369,712	\$ 606,081	\$ -	\$ 2,319,197
Licenses and permits	250,309	-	-	-	-	-	250,309
State-shared revenue and grants	594,371	424,421	112,714	-	-	-	1,131,506
Charges for services	115,610	9,038	-	-	-	-	124,648
Fines and forfeitures	11,228	-	-	-	-	-	11,228
Investment income	5,722	1,608	390	957	1,191	134	10,002
Other revenue:							
Special assessments	29,813	-	-	-	-	7,660	37,473
Other miscellaneous income	152,592	6,571	20,894	385	-	1,755	182,197
<b>Total revenue</b>	<b>2,503,049</b>	<b>441,638</b>	<b>133,998</b>	<b>371,054</b>	<b>607,272</b>	<b>9,549</b>	<b>4,066,560</b>
<b>Expenditures - Current</b>							
General government	339,392	325	325	41,626	-	-	381,668
Legislative	15,517	-	-	-	-	-	15,517
Public safety	1,215,041	-	-	-	-	14,688	1,229,729
Public works	276,924	439,934	415,727	327,142	64	-	1,459,791
Community and economic development	1,724	-	-	-	-	-	1,724
Recreation and culture	163,709	-	-	-	-	-	163,709
Debt service:							
Principal	-	-	-	-	-	75,000	75,000
Interest on long-term debt	-	-	-	-	-	22,655	22,655
<b>Total expenditures</b>	<b>2,012,307</b>	<b>440,259</b>	<b>416,052</b>	<b>368,768</b>	<b>64</b>	<b>112,343</b>	<b>3,349,793</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>490,742</b>	<b>1,379</b>	<b>(282,054)</b>	<b>2,286</b>	<b>607,208</b>	<b>(102,794)</b>	<b>716,767</b>
<b>Other Financing Sources (Uses)</b>							
Face value of debt issue	-	-	-	-	1,500,000	-	1,500,000
Transfers in (Note 5)	400	-	777,972	-	-	134,499	912,871
Transfers out (Note 5)	(179,499)	(147,200)	-	-	(585,772)	(400)	(912,871)
<b>Total other financing (uses) sources</b>	<b>(179,099)</b>	<b>(147,200)</b>	<b>777,972</b>	<b>-</b>	<b>914,228</b>	<b>134,099</b>	<b>1,500,000</b>
<b>Net Change in Fund Balances</b>	<b>311,643</b>	<b>(145,821)</b>	<b>495,918</b>	<b>2,286</b>	<b>1,521,436</b>	<b>31,305</b>	<b>2,216,767</b>
<b>Fund Balances - Beginning of year</b>	<b>1,626,458</b>	<b>815,072</b>	<b>14,097</b>	<b>300,120</b>	<b>-</b>	<b>83,371</b>	<b>2,839,118</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,938,101</b>	<b>\$ 669,251</b>	<b>\$ 510,015</b>	<b>\$ 302,406</b>	<b>\$ 1,521,436</b>	<b>\$ 114,676</b>	<b>\$ 5,055,885</b>

# City of Swartz Creek, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 2,216,767
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	462,159
Depreciation expense	(771,432)
Net book value of assets disposed of	(20,594)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	22,031
Capital contributions are recorded in the statement of activities when received; they are not reported in the funds	(30,000)
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(1,500,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	75,000
Decreases in accumulated employee sick and vacation pay reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	40,731
Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(3,835)
The change in the net pension liability is recorded when incurred in the statement of activities	1,099,006
Decrease in deferred outflows of resources related to pensions	(951,758)
Increase in deferred inflows of resources related to pensions	(309,854)
Increase in equity interest in joint ventures	161,423
Internal Service Funds are included as part of governmental activities	<u>6,959</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 496,603</u></b>

# City of Swartz Creek, Michigan

## Proprietary Funds Statement of Net Position June 30, 2017

	Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Proprietary Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,277,760	\$ 866,143	\$ 2,143,903	\$ 413,350
Investments (Note 3)	375,000	450,000	825,000	-
Receivables:				
Receivables from sales to customers on account	630,133	363,323	993,456	-
Accrued interest receivable	1,319	2,287	3,606	-
Inventory	24,446	-	24,446	-
Prepaid expenses and other assets	14,372	4,415	18,787	8,441
Total current assets	2,323,030	1,686,168	4,009,198	421,791
Noncurrent assets:				
Restricted cash - Unspent bond proceeds	450,000	-	450,000	-
Capital assets (Note 4)	4,425,016	6,016,207	10,441,223	36,313
Total noncurrent assets	4,875,016	6,016,207	10,891,223	36,313
Total assets	7,198,046	7,702,375	14,900,421	458,104
<b>Deferred Outflows of Resources</b>	18,809	9,625	28,434	15,244
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	192,129	4,154	196,283	3,378
Due to other governmental units	139,017	161,384	300,401	-
Deposits payable	18,400	2,500	20,900	-
Accrued liabilities and other	2,996	6,292	9,288	155
Compensated absences (Note 6)	11,384	8,627	20,011	-
Current portion of long-term debt (Note 6)	40,385	-	40,385	-
Total current liabilities	404,311	182,957	587,268	3,533
Noncurrent liabilities:				
Compensated absences (Note 6)	-	-	-	1,854
Net OPEB obligation (Note 11)	63,181	47,480	110,661	-
Net pension liability (Note 9)	44,394	22,716	67,110	35,977
Long-term debt (Note 6)	409,615	-	409,615	-
Total noncurrent liabilities	517,190	70,196	587,386	37,831
Total liabilities	921,501	253,153	1,174,654	41,364
<b>Deferred Inflows of Resources</b>	13,911	7,119	21,030	11,275
<b>Net Position</b>				
Net investment in capital assets	4,425,016	6,016,207	10,441,223	36,313
Unrestricted	1,856,427	1,435,521	3,291,948	384,396
Total net position	<u>\$ 6,281,443</u>	<u>\$ 7,451,728</u>	<u>\$ 13,733,171</u>	<u>\$ 420,709</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Swartz Creek, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Enterprise Funds			Governmental
	_____			Activities
	Water Fund	Sewer Fund	Total	Proprietary Internal Service Fund
<b>Operating Revenue</b>				
Sale of water	\$ 2,230,476	\$ -	\$ 2,230,476	\$ -
Sewage disposal charges	-	1,278,673	1,278,673	-
Interest and penalty charges	20,724	11,675	32,399	-
Equipment rental	-	-	-	202,960
Total operating revenue	2,251,200	1,290,348	3,541,548	202,960
<b>Operating Expenses</b>				
Cost of water	1,956,269	24,625	1,980,894	-
Cost of sewage treatment	-	737,517	737,517	162
General operations and maintenance	56,853	21,645	78,498	164,912
Meter reading and billing	51,434	126,494	177,928	-
Depreciation	190,310	256,781	447,091	25,183
Total operating expenses	2,254,866	1,167,062	3,421,928	190,257
<b>Operating (Loss) Income</b>	(3,666)	123,286	119,620	12,703
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	7,776	7,127	14,903	739
Interest expense	-	(24,167)	(24,167)	-
Debt service charge	(19)	-	(19)	-
Other nonoperating expenses	-	-	-	(6,483)
Total nonoperating revenue (expenses)	7,757	(17,040)	(9,283)	(5,744)
<b>Income - Before contributions</b>	4,091	106,246	110,337	6,959
<b>Capital Contributions - Tap fees</b>	15,750	4,600	20,350	-
<b>Change in Net Position</b>	19,841	110,846	130,687	6,959
<b>Net Position - Beginning of year</b>	6,261,602	7,340,882	13,602,484	413,750
<b>Net Position - End of year</b>	<b>\$ 6,281,443</b>	<b>\$ 7,451,728</b>	<b>\$ 13,733,171</b>	<b>\$ 420,709</b>

# City of Swartz Creek, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2017

	Enterprise Funds			Internal Service
	Water Fund	Sewer Fund	Total	Motor Pool
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,207,515	\$ 1,317,100	\$ 3,524,615	\$ 927
Receipts from interfund services and reimbursements	-	-	-	202,033
Payments to suppliers	(1,782,156)	(836,366)	(2,618,522)	(106,056)
Payments to employees	(137,427)	(79,660)	(217,087)	(51,265)
Net cash provided by operating activities	287,932	401,074	689,006	45,639
<b>Cash Flows from Noncapital Financing Activities - Repayment of loans made to other funds</b>				
	-	29,511	29,511	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Issuance of bonds	450,000	-	450,000	-
Tap fees	15,750	4,600	20,350	-
Purchase of capital assets	(858,617)	(438,361)	(1,296,978)	-
Principal and interest paid on capital debt	-	(521,445)	(521,445)	-
Debt service charge	(19)	-	(19)	-
Insurance proceeds	-	-	-	11,837
Net cash (used in) provided by capital and related financing activities	(392,886)	(955,206)	(1,348,092)	11,837
<b>Cash Flows from Investing Activities</b>				
Interest received on investments	9,699	5,645	15,344	982
Purchase of investment securities	(1,740,000)	(975,000)	(2,715,000)	(50,000)
Proceeds from sale and maturities of investment securities	2,700,000	1,265,000	3,965,000	300,000
Net cash provided by investing activities	969,699	295,645	1,265,344	250,982
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>864,745</b>	<b>(228,976)</b>	<b>635,769</b>	<b>308,458</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>863,015</b>	<b>1,095,119</b>	<b>1,958,134</b>	<b>104,892</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,727,760</b>	<b>\$ 866,143</b>	<b>\$ 2,593,903</b>	<b>\$ 413,350</b>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 1,652,760	\$ 1,316,143	\$ 2,968,903	\$ 413,350
Restricted cash	450,000	-	450,000	-
Less amounts classified as investments	(375,000)	(450,000)	(825,000)	-
Total cash and cash equivalents	<b>\$ 1,727,760</b>	<b>\$ 866,143</b>	<b>\$ 2,593,903</b>	<b>\$ 413,350</b>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>				
Operating (loss) income	\$ (3,666)	\$ 123,286	\$ 119,620	\$ 12,703
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	190,310	256,781	447,091	25,183
Changes in assets and liabilities:				
Receivables	(43,685)	26,752	(16,933)	-
Inventories	8,540	-	8,540	-
Prepaid and other assets	(14,215)	(4,258)	(18,473)	-
Accounts payable	154,743	4,322	159,065	7,480
Accrued and other liabilities	(4,095)	(5,809)	(9,904)	273
Net cash provided by operating activities	<b>\$ 287,932</b>	<b>\$ 401,074</b>	<b>\$ 689,006</b>	<b>\$ 45,639</b>

The Notes to Financial Statements are an Integral Part of this Statement.

# City of Swartz Creek, Michigan

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## Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2017

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 37,264
Receivables	<u>57,023</u>
Total assets	<u><b>\$ 94,287</b></u>
<b>Liabilities</b>	
Due to other governmental units	\$ 58,316
Deposits payable	<u>35,971</u>
Total liabilities	<u><b>\$ 94,287</b></u>

# City of Swartz Creek, Michigan

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## Notes to Financial Statements June 30, 2017

### Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Swartz Creek, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Swartz Creek, Michigan:

#### **Reporting Entity**

The City of Swartz Creek, Michigan was incorporated in 1959 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

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. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - For financial reporting purposes, the City of Swartz Creek Building Authority (the "Building Authority") has been reported as if it were a part of the City's operations because:

- The City pledged its full faith and credit as a guarantee for the Building Authority's outstanding debt.
- The City is obligated to fund deficits of the Building Authority.

**Discretely Presented Component Unit** - The Swartz Creek Downtown Development Authority (the "Authority") was established in accordance with state law to promote and rehabilitate the downtown area. State law provides for a specific tax levy for the operations of the Authority. The City appoints the board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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. Taxes and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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.

#### **Fund Accounting**

The City accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:



### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the following funds as “major” governmental funds:

- The General Fund is the City'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 Major Streets Fund accounts for the portion of the City's share of proceeds from gas and weight tax levied by the State and distributed to local governmental units to be used for major streets. State law requires that these taxes be used for major street maintenance and construction.
- The Local Streets Fund accounts for the portion of the City's share of proceeds from gas and weight tax levied by the State and distributed to local governmental units to be used for local streets. State law requires that these taxes be used for local street maintenance and construction.
- The Garbage Collection Fund accounts for a special property tax millage allowed to provide garbage and compost collection services.
- The Local Streets Millage Fund accounts for a special property tax millage for local street improvements.

**Proprietary funds** include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the City). The City reports the following funds as “major” enterprise funds:

- The Water Fund accounts for the operations of the water distribution system.
- The Sewer Fund accounts for the operations of the sewage pumping collection system.

The City's internal service funds are used to account for services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund that allocates costs to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Fiduciary funds** include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- The Agency Fund accounts for assets held by the City in a trustee capacity. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

**Interfund Activity** - During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

#### **Basis of Accounting**

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at end of year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, delinquent property taxes, delinquent special assessments, and miscellaneous receivables will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources."

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Specific Balances and Transactions**

**Cash, Cash Equivalents, and Investments** - Cash and cash equivalents include 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.

**Receivables and Payables** - All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**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 and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Unspent bond proceeds of the Local Streets Millage Fund and Water Fund are required to be set aside for construction. These amounts have been classified as restricted cash.

**Capital Assets** - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note I - Nature of Business and Significant Accounting Policies (Continued)

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Lives (Years)
Infrastructure	15-25
Water and sewer lines	40
Land improvements	10-40
Buildings and improvements	39
Machinery and equipment	3-7
Vehicles	3-5

**Long-term Obligations** - In the government-wide financial statements and the 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. Costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize the face amount of debt issued as an "other financing source," as well as bond premiums and discounts. The General Fund and Local Streets Millage Funds are generally used to liquidate governmental long-term debt.

**Unearned Revenue** - The statement of net position and/or balance sheet will sometimes report a liability related to resources that have been received but not yet earned. At the end of the fiscal year, the City reports unearned revenue related to miscellaneous revenue that was received during the year and related to the next fiscal year.

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

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources related to the defined benefit pension plan made up of employer contributions made subsequent to the measurement date, as well as the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, changes in actuarial assumptions, and the difference between expected and actual experience.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows of resources related to the defined benefit pension plan, made up of the difference between expected and actual experience. The governmental funds report unavailable revenue from delinquent property taxes, special assessments, and miscellaneous revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amount become available.

#### **Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

#### **Fund Balance Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### **Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. In the fund financial statements, governmental funds report the following components of fund balance:

**Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note I - Nature of Business and Significant Accounting Policies (Continued)

Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

Committed: Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

Assigned: Intent to spend resources on specific purposes expressed by the City Council

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Property Tax Revenue** - Property taxes attach as an enforceable lien on property as of July 1. Taxes are also levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1 of the following year, at which time penalties and interest are assessed.

The City's 2016 tax is levied and collectible on July 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	4.829	\$ 695,754
Garbage collection	2.627	378,494
Local streets	4.220	608,010
Public safety	4.900	652,865
Total	<u>16.576</u>	<u>\$ 2,335,123</u>

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Pension** - The City offers a defined benefit pension plan to some of its employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose 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 City's pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General Fund, major and nonmajor governmental funds, Water Fund, Sewer Fund, and internal service funds are used to liquidate the pension obligation.

**Other Postemployment Benefit Costs** - The City offers retiree healthcare benefits to retirees. The City uses the alternative measurement method to compute the ARC necessary to fund the OPEB obligation over the remaining amortization period. 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 equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General Fund, Water Fund, and Sewer Fund are used to liquidate the OPEB obligation.

**Compensated Absences (Vacation and Sick Leave)** - In accordance with contracts negotiated with the various employee groups of the City, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The General Fund is used to liquidate the obligation.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water Fund and Sewer Fund and internal service funds is charges to customers for sales and services. The Water Fund and Sewer Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2016	\$ (328,539)
Current year permit revenue	41,908
Related expenses - Direct costs	<u>60,650</u>
Current year shortfall	<u>(18,742)</u>
Cumulative shortfall at June 30, 2017	<u>\$ (347,281)</u>



# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or 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.

The City has designated several banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City's cash and investments are subject to risks, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City, including its component unit, had \$7,262,148 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City, including its component unit, believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
MBIA Michigan Class Pool	\$ 818	AAA	Fitch

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2016	Reclassifications and Adjustments	Additions	Disposals	Balance June 30, 2017
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,523,934	\$ -	\$ -	\$ (2,275)	\$ 1,521,659
Construction in progress	990,781	(967,827)	235,089	-	258,043
Subtotal	2,514,715	(967,827)	235,089	(2,275)	1,779,702
Capital assets being depreciated:					
Infrastructure	10,009,576	967,827	189,200	-	11,166,603
Buildings and improvements	2,713,936	-	-	-	2,713,936
Machinery and equipment	963,846	-	37,870	(34,630)	967,086
Vehicles	634,483	-	-	(154,916)	479,567
Land improvements	962,407	-	-	-	962,407
Subtotal	15,284,248	967,827	227,070	(189,546)	16,289,599
Accumulated depreciation:					
Infrastructure	2,768,339	-	652,659	-	3,420,998
Buildings and improvements	1,225,646	-	53,795	-	1,279,441
Machinery and equipment	887,101	-	31,852	(34,630)	884,323
Vehicles	555,025	-	24,849	(136,597)	443,277
Land improvements	507,679	-	33,460	-	541,139
Subtotal	5,943,790	-	796,615	(171,227)	6,569,178
Net capital assets being depreciated	9,340,458	967,827	(569,545)	(18,319)	9,720,421
Net capital assets	\$ 11,855,173	\$ -	\$ (334,456)	\$ (20,594)	\$ 11,500,123
<b>Business-type Activities</b>					
Capital assets not being depreciated -					
Construction in progress	\$ 24,120	\$ (24,120)	\$ 732,186	\$ -	\$ 732,186
Capital assets being depreciated:					
Water and sewer lines	14,843,281	24,120	559,356	-	15,426,757
Machinery and equipment	137,334	-	5,436	(3,588)	139,182
Subtotal	14,980,615	24,120	564,792	(3,588)	15,565,939
Accumulated depreciation:					
Water and sewer lines	5,287,664	-	440,032	-	5,727,696
Machinery and equipment	125,735	-	7,059	(3,588)	129,206
Subtotal	5,413,399	-	447,091	(3,588)	5,856,902
Net capital assets being depreciated	9,567,216	24,120	117,701	-	9,709,037
Net capital assets	\$ 9,591,336	\$ -	\$ 849,887	\$ -	\$ 10,441,223

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$	499,233
Public safety		11,723
Public works		249,446
Recreation and culture		11,030
Internal service fund depreciation is charged to the various functions based on their usage of the asset		25,183
Total governmental activities	\$	<u>796,615</u>

Business-type activities:

Water	\$	190,310
Sewer		256,781
Total business-type activities	\$	<u>447,091</u>

**Construction Commitments** - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2017 Paving & Watermain Project	\$ 908,565	\$ 2,007,573

### Note 5 - Interfund Receivables, Payables, and Transfers

The long-term advance from the Sewer Fund to the General Fund was used to pay for the City's portion of the equipment costs paid to the Swartz Creek Fire Department. The advance was a 0.40 percent loan with annual payments due to the Sewer Fund from the General Fund, with the final annual installment being paid during the current year of \$29,629.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Local Streets Fund	\$ 45,000
	Nonmajor governmental funds	134,499
	Total General Fund	179,499
Major Streets Fund	Local Streets Fund	147,200
Local Streets Millage Fund	Local Streets Fund	585,772
Nonmajor governmental funds	General Fund	400
	Total	<u>\$ 912,871</u>

The transfers from the General Fund to the nonmajor governmental funds were for drug forfeitures, resources to service debt, and the use of unrestricted resources to fund purchase of fire equipment, in accordance with budgetary authorizations. The transfer from the General Fund to the Local Streets Fund was to finance local street projects.

The transfer from the Major Streets Fund and the Local Streets Millage Fund to the Local Streets Fund was to finance local streets projects in compliance with State law.

The transfer from the nonmajor governmental funds to the General Fund was to reimburse petty cash.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Description	Amount
<b>Governmental Activities</b>	
General obligations - 2001 Building Authority Bond, used to renovate City Hall, bearing interest from 4.25 to 5.65 percent, maturing in 2021	\$ 320,000
General obligations - 2017 General Obligation Limited Tax Bonds, used to fund a portion of certain capital improvements in the City, bearing interest from 1.15 to 2.75 percent, maturing in 2027	1,500,000
Total governmental activity debt	<u>\$ 1,820,000</u>

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 6 - Long-term Debt (Continued)

Description	Amount
<b>Business-type Activities</b>	
General obligations - 2017 General Obligation Limited Tax Bonds, used to fund a portion of certain capital improvements in the City, bearing interest from 1.15 to 2.75 percent, maturing in 2027	<u>\$ 450,000</u>

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation building authority bond	\$ 395,000	\$ -	\$ (75,000)	\$ 320,000	\$ 75,000
General obligation limited tax bonds	-	1,500,000	-	1,500,000	134,615
Accumulated compensated absences	66,182	71,275	(111,233)	26,224	26,224
Total governmental activities	<u>\$ 461,182</u>	<u>\$ 1,571,275</u>	<u>\$ (186,233)</u>	<u>\$ 1,846,224</u>	<u>\$ 235,839</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
County contractual obligations	\$ 494,746	\$ -	\$ (494,746)	\$ -	\$ -
General obligation limited tax bonds	-	450,000	-	450,000	40,385
Accumulated compensated absences	23,159	54,389	(57,537)	20,011	20,011
Total business-type activities	<u>\$ 517,905</u>	<u>\$ 504,389</u>	<u>\$ (552,283)</u>	<u>\$ 470,011</u>	<u>\$ 60,396</u>

Total interest expense for the year was approximately \$46,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 209,615	\$ 45,582	\$ 255,197	\$ 40,385	\$ 8,937	\$ 49,322
2019	209,615	39,755	249,370	40,385	8,432	48,817
2020	213,462	33,627	247,089	41,538	7,848	49,386
2021	237,308	26,595	263,903	42,692	7,173	49,865
2022	146,154	21,277	167,431	43,846	6,383	50,229
2023-2027	803,846	53,394	857,240	241,154	16,018	257,172
Total	<u>\$ 1,820,000</u>	<u>\$ 220,230</u>	<u>\$ 2,040,230</u>	<u>\$ 450,000</u>	<u>\$ 54,791</u>	<u>\$ 504,791</u>

### **Note 7 - 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 participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City has purchased commercial insurance for property, liability, wrongful acts, and health care. The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

### **Note 8 - Joint Venture Agreements**

**The Swartz Creek Area Fire Department (the "Fire Department")** - The Fire Department has been organized as a joint venture of the City of Swartz Creek, Michigan and the Township of Clayton (the "Township"). The organization agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Department board are appointed by the City and Township. The participating units provide revenue to the Fire Department on the basis of fire runs and general contributions. The City and Township have provided the Fire Department with the use of several vehicles and real property. Title to these vehicles remains with the contributing unit of governments.

The equity interest is calculated based on the City's total contributions as a percentage of all contributions received by the Fire Department. The City's equity interest of \$253,196 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2017, the City was billed \$30,060 for fire runs by the Fire Department. The City contributed an additional \$100,050 toward operating costs.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Department headquarters.

# City of Swartz Creek, Michigan

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## Notes to Financial Statements June 30, 2017

### Note 8 - Joint Venture Agreement (Continued)

**The Regional Police Authority of Genesee County** (the "Authority") - The Authority has been organized as a joint venture of the City of Swartz Creek, Michigan and the Township of Mundy (the "Township"). The organization agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Authority board are appointed by the City and Township. The participating units provide revenue to the Authority on the basis of monthly police service charges and general contributions. The City and Township have provided the Authority with capital contributions of several vehicles and real property. Title to these vehicles transferred to the Authority.

The equity interest is calculated based on the City's total contributions as a percentage of all contributions received by the Authority. The City's equity interest of \$212,638 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2017, the City was billed \$435,000 for police services by the Authority.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers some employees of the City. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmich.com](http://www.mersofmich.com) or by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Benefits Provided** - The plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

The MERS plan covers general employees hired prior to July 1, 1997 and police employees and supervisor employees hired prior to July 1, 1997.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

Retirement benefits for general employees hired prior to July 1, 1997 are calculated as 2 percent of the employee's final five-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at 55 with 30 years of service. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction.

Retirement benefits for police employees are calculated as 2.5 percent of the employee's final five-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at 55 with 25 years of service. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction.

Retirement benefits for supervisor employees hired prior to July 1, 1997 are calculated as 2.5 percent of the employee's final three-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at 50 with 25 years of service. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial valuation.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date for supervisor employees hired prior to July 1, 1997. The annual adjustments are 2.5 percent, noncompounding.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions. Police employees' benefit terms may be subject to binding arbitration in certain circumstances.

**Employees Covered by Benefit Terms** - At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	19
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	8
	<hr/>
Total employees covered by MERS	28
	<hr/>



### Note 9 - Defined Benefit Pension Plan (Continued)

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. 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 costs of benefits earned by plan members 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.

For general employees hired prior to July 1, 1997, the plan provides that the employer and employees contribute amounts necessary to fund the actuarially determined benefits. General employees hired prior to July 1, 1997 are required to deposit 2 percent of all monetary compensation, including overtime. The City makes employer contributions in accordance with funding requirements determined by MERS' actuary. The City's average monthly contribution was approximately \$1,400 for general employees hired prior to July 1, 1997.

For police employees, the plan provides that the employer and employees contribute amounts necessary to fund the actuarially determined benefits. Police employees are required to deposit 2.5 percent of all monetary compensation, including overtime. The City makes employer contributions in accordance with funding requirements determined by MERS' actuary. The City's average monthly contribution was approximately \$5,800 for police employees.

For supervisor employees hired prior to July 1, 1997, the plan provides that the employer and employees contribute amounts necessary to fund the actuarially determined benefits. Supervisor employees hired prior to July 1, 1997 are required to contribute 4 percent of all monetary compensation, including overtime. The City makes employer contributions in accordance with funding requirements determined by MERS' actuary. The City currently does not have a required monthly contribution for supervisor employees hired prior to July 1, 1997, although the City's average monthly contribution was approximately \$5,500 for supervisor employees.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Net Pension Liability

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

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2015</b>	\$ 8,962,779	\$ 6,672,433	\$ 2,290,346
Service cost	51,751	-	51,751
Interest	694,370	-	694,370
Differences between expected and actual experience	(513,238)	-	(513,238)
Contributions - Employer	-	658,829	(658,829)
Contributions - Employee	-	12,249	(12,249)
Net investment income	-	775,551	(775,551)
Benefit payments, including refunds	(618,056)	(618,056)	-
Administrative expenses	-	(15,226)	15,226
Net changes	(385,173)	813,347	(1,198,520)
<b>Balance at December 31, 2016</b>	<u>\$ 8,577,606</u>	<u>\$ 7,485,780</u>	<u>\$ 1,091,826</u>

**Changes Since the Measurement Date** - Subsequent to the measurement date of December 31, 2016, but prior to the City's fiscal year ended date of June 30, 2017, police employees terminated from the City's pension plan and transferred to the Metro Police Authority of Genesee County pension plan.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2017, the City recognized pension expense of \$301,903. At June 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 5,370	\$ (342,159)
Changes in assumptions	139,636	-
Net difference between projected and actual earnings on pension plan investments	269,003	-
Employer contributions to the plan subsequent to the measurement date	48,597	-
Total	<u>\$ 462,606</u>	<u>\$ (342,159)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the \$48,597 employer contributions to the plan made subsequent to the measurement date, which will impact the net pension liability in fiscal year 2018, rather than pension expense.

Years Ending June 30	Amount
2018	\$ 88,111
2019	(56,895)
2020	88,682
2021	(48,048)

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

Inflation	2.50 %	
Salary increases	3.75 %	In the long term, including inflation
Investment rate of return	8.00 %	Net of pension plan investment expense, including inflation

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

Mortality rates were based on the 50 percent male and 50 percent female blend of the following tables:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent
2. The RP-2014 Employee Mortality Tables
3. The RP-2014 Juvenile Mortality Tables

For disabled retirees, the mortality rates were based on the 50 percent male - 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

**Discount Rate** - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

#### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2016, the measurement date, 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	58 %	5.0 %
Global fixed income	20	2.2
Real assets	12	4.2
Diversifying strategies	10	6.6

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan (Continued)

The preceding target allocation was amended as of January 1, 2017 to reduce the previous allocation to global equity fixed income and to increase the allocation of real assets and diversifying strategies. The target allocation as of January 1, 2017 will be 55.5 percent global equity, 18.5 percent global fixed income, 13.5 percent real assets, and 12.5 percent diversifying strategies.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability of the City	\$ 1,958,943	\$ 1,091,826	\$ 350,738

**Pension Plan Fiduciary Net Position** - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

### **Note 10 - Defined Contribution Pension Plan**

The City has adopted, by ordinance, a defined contribution money purchase pension plan administered by MERS and a deferred compensation 457 retirement plan administered by ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is for all full-time supervisors and employees represented by AFSCME hired after July 1, 1997. The City contributes 7 percent of supervisors' wages and 5 percent of AFSCME employees' annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20 percent for each year of employment, becoming fully vested after five years. Contribution requirements and plan provisions are established and may be amended by the City Council.

The City's total payroll during the current year was \$938,574. The current year contribution was calculated based on covered payroll of \$491,878, resulting in an employer contribution of \$29,249. The 457 deferred compensation plan is open to all of the employees of the City on a voluntary basis.

### **Note 11 - Other Postemployment Benefits**

**Plan Description** - The City provides retiree healthcare benefits to eligible employees and their spouses. This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a publicly available financial report.

**Funding Policy** - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - Other Postemployment Benefits (Continued)

**Funding Progress** - The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities on a closed basis (or funding excess) over a period of 25 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual required contribution (recommended)	\$ 66,041
Interest on OPEB obligation	14,994
Less adjustment to the annual required contribution	<u>(20,875)</u>
Annual OPEB cost	60,160
Amount contributed - Payments of current premiums	<u>(34,861)</u>
Increase in net OPEB obligation	25,299
OPEB obligation - Beginning of year	<u>374,873</u>
OPEB obligation - End of year	<u><u>\$ 400,172</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two previous years are as follows:

Fiscal Year Ended	Alternative Measurement Method Date	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
6/30/15	6/30/15	\$ 146,937	34.0 %	\$ 294,134
6/30/16	6/30/16	124,507	35.2	374,873
6/30/17	6/30/17	60,160	57.9	400,172

Note that the OPEB costs above and the Actuarial Accrued Liability are significantly lower in the current year due to the creation of the Metro Police Authority which has taken over the obligation for all active police employees retiree health care. This was effective during fiscal year 2017.

# City of Swartz Creek, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Alternative Measurement Method Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	Ratio of UAAL to Covered Payroll
6/30/15	\$ -	\$ 1,888,248	\$ 1,888,248	- %	\$ -	- %
6/30/16	-	1,542,003	1,542,003	-	-	-
6/30/17	-	899,271	899,271	-	-	-

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The following simplifying assumptions were made:

*Retirement Age for Active Employees* - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 56 or at the first subsequent year in which the member would qualify for benefits.

*Marital Status* - Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2002 United States Life Tables for Males and for Females were used.



### **Note 11 - Other Postemployment Benefits (Continued)**

*Turnover* - Nongroup-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose of allocating to periods the present value of total benefits to be paid.

*Healthcare Cost Trend Rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 6.2 percent was used.

*Health Insurance Premiums* - 2017 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Payroll Growth Rate* - The expected long-term payroll growth rate was assumed to equal 1.5 percent.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2017 was 23 years.

### **Note 12 - Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2019.

### Note 12 - Upcoming Accounting Pronouncements (Continued)

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2020.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires 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. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2021.

# **City of Swartz Creek, Michigan**

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## **Notes to Financial Statements June 30, 2017**

### **Note 13 - Subsequent Event**

On March 27, 2017, the City Council approved a resolution for the City to pay, in whole, the unfunded accrual liability as of the measurement date of December 31, 2016 for the police employee group that are now employees of the Metro Police Authority for a total of \$665,914 from the General Fund by October 31, 2017.

## **Required Supplemental Information**

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# City of Swartz Creek, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,373,094	\$ 1,343,404	\$ 1,343,404	\$ -
Licenses and permits	191,925	250,309	250,309	-
State-shared revenue and grants	504,658	594,371	594,371	-
Charges for services	155,562	150,610	115,610	(35,000)
Fines and forfeitures	13,730	11,560	11,228	(332)
Investment income	1,813	5,722	5,722	-
Other revenue	170,119	182,405	182,405	-
Total revenue	2,410,901	2,538,381	2,503,049	(35,332)
<b>Expenditures - Current</b>				
General government	428,892	347,260	339,392	7,868
Legislative	17,275	16,245	15,517	728
Public safety	1,269,483	1,235,775	1,215,041	20,734
Public works	305,183	330,298	276,924	53,374
Community and economic development	3,005	1,724	1,724	-
Recreation and culture	268,789	192,421	163,709	28,712
Total expenditures	2,292,627	2,123,723	2,012,307	111,416
<b>Excess of Revenue Over Expenditures</b>	118,274	414,658	490,742	76,084
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	400	400	-
Transfers out	(181,351)	(179,499)	(179,499)	-
<b>Net Change in Fund Balance</b>	(63,077)	235,559	311,643	76,084
<b>Fund Balance - Beginning of year</b>	1,626,458	1,626,458	1,626,458	-
<b>Fund Balance - End of year</b>	<u>\$ 1,563,381</u>	<u>\$ 1,862,017</u>	<u>\$ 1,938,101</u>	<u>\$ 76,084</u>

# City of Swartz Creek, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 430,000	\$ 424,421	\$ 424,421	\$ -
Charges for services	8,000	9,038	9,038	-
Investment income	400	1,608	1,608	-
Other revenue - Other miscellaneous income	4,000	6,224	6,571	347
Total revenue	442,400	441,291	441,638	347
<b>Expenditures - Current</b>				
General government	350	674	325	349
Public works	424,650	476,387	439,934	36,453
Total expenditures	425,000	477,061	440,259	36,802
<b>Other Financing Uses -</b>				
Transfers out	(147,200)	(147,200)	(147,200)	-
<b>Net Change in Fund Balance</b>	(129,800)	(182,970)	(145,821)	37,149
<b>Fund Balance - Beginning of year</b>	815,072	815,072	815,072	-
<b>Fund Balance - End of year</b>	<u>\$ 685,272</u>	<u>\$ 632,102</u>	<u>\$ 669,251</u>	<u>\$ 37,149</u>

# City of Swartz Creek, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 127,217	\$ 112,714	\$ 112,714	\$ -
Investment income	85	390	390	-
Other revenue	17,200	20,894	20,894	-
Total revenue	144,502	133,998	133,998	-
<b>Expenditures - Current</b>				
General government	400	723	325	398
Public works	356,554	672,828	415,727	257,101
Total expenditures	356,954	673,551	416,052	257,499
<b>Excess of Expenditures Over Revenue</b>	(212,452)	(539,553)	(282,054)	257,499
<b>Other Financing Sources -</b>				
Transfers in	192,200	2,277,972	777,972	(1,500,000)
<b>Net Change in Fund Balance</b>	(20,252)	1,738,419	495,918	(1,242,501)
<b>Fund Balance - Beginning of year</b>	14,097	14,097	14,097	-
<b>Fund Balance - End of year</b>	<u>\$ (6,155)</u>	<u>\$ 1,752,516</u>	<u>\$ 510,015</u>	<u>\$ (1,242,501)</u>

# City of Swartz Creek, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Garbage Collection Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 380,485	\$ 369,712	\$ 369,712	\$ -
Investment income	400	957	957	-
Other revenue	22	385	385	-
Total revenue	380,907	371,054	371,054	-
<b>Expenditures - Current</b>				
General government	55,534	41,670	41,626	44
Public works	371,673	327,276	327,142	134
Total expenditures	427,207	368,946	368,768	178
<b>Net Change in Fund Balance</b>	(46,300)	2,108	2,286	178
<b>Fund Balance - Beginning of year</b>	300,120	300,120	300,120	-
<b>Fund Balance - End of year</b>	<b>\$ 253,820</b>	<b>\$ 302,228</b>	<b>\$ 302,406</b>	<b>\$ 178</b>



# City of Swartz Creek, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Millage Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 608,000	\$ 606,081	\$ 606,081	\$ -
Investment income	-	1,191	1,191	-
Total revenue	608,000	607,272	607,272	-
<b>Expenditures - Current - Public works</b>	-	385	64	321
<b>Excess of Revenue Over Expenditures</b>	608,000	606,887	607,208	321
<b>Other Financing Sources (Uses)</b>				
Face value of debt issue	-	1,500,000	1,500,000	-
Transfers out	-	(2,085,772)	(585,772)	1,500,000
<b>Net Change in Fund Balance</b>	608,000	21,115	1,521,436	1,500,321
<b>Fund Balance - Beginning of year</b>	-	-	-	-
<b>Fund Balance - End of year</b>	<b>\$ 608,000</b>	<b>\$ 21,115</b>	<b>\$ 1,521,436</b>	<b>\$ 1,500,321</b>

# **City of Swartz Creek, Michigan**

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## **Note to Required Supplemental Information Year Ended June 30, 2017**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end.

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

# City of Swartz Creek, Michigan

## Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios Last Three Fiscal Years

	2017	2016	2015
<b>Total Pension Liability</b>			
Service cost	\$ 51,751	\$ 46,596	\$ 45,819
Interest	694,370	673,081	665,445
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(513,238)	16,110	-
Changes in assumptions	-	418,907	-
Benefit payments, including refunds	(618,056)	(654,309)	(583,933)
<b>Net Change in Total Pension Liability</b>	(385,173)	500,385	127,331
<b>Total Pension Liability - Beginning of year</b>	8,962,779	8,462,394	8,335,063
<b>Total Pension Liability - End of year</b>	<b>\$ 8,577,606</b>	<b>\$ 8,962,779</b>	<b>\$ 8,462,394</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 658,829	\$ 212,373	\$ 97,181
Contributions - Member	12,249	11,530	13,280
Net investment income (loss)	775,551	(106,039)	451,462
Administrative expenses	(15,226)	(15,485)	(16,481)
Benefit payments, including refunds	(618,056)	(654,309)	(583,933)
Other	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	813,347	(551,930)	(38,491)
<b>Plan Fiduciary Net Position - Beginning of year</b>	6,672,433	7,224,363	7,262,854
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 7,485,780</b>	<b>\$ 6,672,433</b>	<b>\$ 7,224,363</b>
<b>City's Net Pension Liability</b>	<b>\$ 1,091,826</b>	<b>\$ 2,290,346</b>	<b>\$ 1,238,031</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	87.27 %	74.45 %	85.37 %
<b>Covered Employee Payroll</b>	\$ 511,896	\$ 482,539	\$ 475,398
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	213.3 %	474.6 %	260.4 %

# City of Swartz Creek, Michigan

## Required Supplemental Information Schedule of City Contributions Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 94,061	\$ 100,374	\$ 97,181	\$ 96,931	\$ 79,846	\$ 76,298	\$ 76,075	\$ 80,475	\$ 109,225	\$ 99,212
Contributions in relation to the actuarially determined contribution	117,167	655,770	97,181	96,931	79,846	93,164	105,824	285,463	274,921	194,393
Contribution deficiency (excess)	<b>\$ (23,106)</b>	<b>\$ (555,396)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (16,866)</b>	<b>\$ (29,749)</b>	<b>\$ (204,988)</b>	<b>\$ (165,696)</b>	<b>\$ (95,181)</b>
Covered employee payroll	\$ 511,896	\$ 482,539	\$ 475,398	\$ 475,620	\$ 573,530	\$ 568,710	\$ 572,087	\$ 609,086	\$ 721,368	\$ 711,359
Contributions as a percentage of covered employee payroll	22.9 %	135.9 %	20.4 %	20.4 %	13.9 %	16.4 %	18.5 %	46.9 %	38.1 %	27.3 %

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the City's fiscal year ended June 30, 2017 were determined based on the actuarial valuation as of December 31, 2014. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	22 years
Asset valuation method	Five-year smoothed market
Inflation	2.5 percent
Salary increases	3.75 percent
Investment rate of return	7.75 percent - Gross of pension plan investment expense, including inflation
Retirement age	Experience-based table of rates, which are specific to the type of eligibility condition
Mortality	RP-2014 Mortality Tables of a 50 percent male and 50 percent female blend
Other information	None

# City of Swartz Creek, Michigan

## Required Supplemental Information OPEB System Schedule Year Ended June 30, 2017

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/15	\$ -	\$ 1,888,248	\$ 1,888,248	- %	\$ -	- %
6/30/16	-	1,542,003	1,542,003	-	-	-
6/30/17	-	899,271	899,271	-	-	-

## **Other Supplemental Information**

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# City of Swartz Creek, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue Funds			Debt Service Funds		
	Drug Enforcement	Special Assessment	Total	City Hall - Debt Service	Fire Capital Project	Total Nonmajor Governmental Funds
<b>Assets</b>						
Cash and investments	\$ -	\$ 28,311	\$ 28,311	\$ 3,744	\$ 80,288	\$ 112,343
Receivables	-	5,973	5,973	-	-	5,973
Total assets	<u>\$ -</u>	<u>\$ 34,284</u>	<u>\$ 34,284</u>	<u>\$ 3,744</u>	<u>\$ 80,288</u>	<u>\$ 118,316</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>						
<b>Liabilities</b> - Accounts payable	\$ -	\$ 40	\$ 40	\$ -	\$ -	\$ 40
<b>Deferred Inflows of Resources</b>	-	3,600	3,600	-	-	3,600
<b>Fund Balances</b>						
Restricted - Weed control and sidewalks	-	30,644	30,644	-	-	30,644
Assigned:						
Debt service	-	-	-	3,744	-	3,744
Capital projects	-	-	-	-	80,288	80,288
Total fund balances	<u>-</u>	<u>30,644</u>	<u>30,644</u>	<u>3,744</u>	<u>80,288</u>	<u>114,676</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ -</u>	<u>\$ 34,284</u>	<u>\$ 34,284</u>	<u>\$ 3,744</u>	<u>\$ 80,288</u>	<u>\$ 118,316</u>

# City of Swartz Creek, Michigan

	Special Revenue Funds			Debt Service Funds
	Drug Enforcement	Special Assessment	Total	City Hall - Debt Service
<b>Revenue</b>				
Investment income	\$ -	\$ -	\$ -	\$ 15
Other revenue	-	9,415	9,415	-
Total revenue	-	9,415	9,415	15
<b>Expenditures - Current</b>				
Public safety	9,813	4,875	14,688	-
Debt service:				
Principal	-	-	-	75,000
Interest on long-term debt	-	-	-	22,655
Total expenditures	9,813	4,875	14,688	97,655
<b>Excess of Revenue (Under) Over Expenditures</b>	(9,813)	4,540	(5,273)	(97,640)
<b>Other Financing Sources (Uses)</b>				
Transfers in	5,999	-	5,999	98,500
Transfers out	(400)	-	(400)	-
Total other financing sources	5,599	-	5,599	98,500
<b>Net Change in Fund Balances</b>	(4,214)	4,540	326	860
<b>Fund Balances - Beginning of year</b>	4,214	26,104	30,318	2,884
<b>Fund Balances - End of year</b>	\$ -	\$ 30,644	\$ 30,644	\$ 3,744



**Other Supplemental Information  
Combining Statement of Revenue, Expenditures, and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2017**

Capital Projects Fund	Total Nonmajor Governmental Funds
Fire Capital Project	
\$ 119	\$ 134
-	9,415
119	9,549
-	14,688
-	75,000
-	22,655
-	112,343
119	(102,794)
30,000	134,499
-	(400)
30,000	134,099
30,119	31,305
50,169	83,371
<b>\$ 80,288</b>	<b>\$ 114,676</b>

# City of Swartz Creek, Michigan

## Other Supplemental Information Statement of Fiduciary Assets and Liabilities Fiduciary Funds June 30, 2017

	Agency Funds			
	Trust and Agency	Winter Tax Collection	Delinquent Personal Property Tax	Total Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 35,971	\$ 1,293	\$ -	\$ 37,264
Receivables	-	-	57,023	57,023
Total assets	<b>\$ 35,971</b>	<b>\$ 1,293</b>	<b>\$ 57,023</b>	<b>\$ 94,287</b>
<b>Liabilities</b>				
Due to other governmental units	\$ -	\$ 1,293	\$ 57,023	\$ 58,316
Deposits payable	35,971	-	-	35,971
Total liabilities	<b>\$ 35,971</b>	<b>\$ 1,293</b>	<b>\$ 57,023</b>	<b>\$ 94,287</b>