

CITY OF CEDAR SPRINGS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018



Vredeveld Haefner LLC
CPAs and Consultants

CITY OF CEDAR SPRINGS

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INDEPENDENT AUDITORS' REPORT

September 13, 2018

Honorable Mayor and Members of the City Council
City of Cedar Springs, 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 Cedar Springs, Michigan, (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cedar Springs, Michigan, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Urodeuxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Cedar Springs, we offer readers of the City of Cedar Springs' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Continued residential and commercial development
- Purchased new Dump Truck/ Plow truck for the motor pool internal service fund
- New ADA seating area at City Hall
- New paint/upgrades at City Hall
- Continuing upgrading to auto read meters for Utility Billing

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Cedar Springs that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, public safety, public works including major and local street construction and maintenance, culture and recreation, and debt service activities. The business-type activities of the City consist of sewer and water operations.

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

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

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

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

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its vehicles and equipment. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Cedar Springs, assets exceeded liabilities by \$13,778,058 at the close of the most recent fiscal year.

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

Summary of Net Position

	Governmental Activities		Business-type Activities		Totals	
	2017	2018	2017	2018	2017	2018
Current and other assets	\$2,363,082	\$2,648,043	\$2,302,110	\$2,560,350	\$4,665,192	\$5,208,393
Capital assets	5,759,373	5,713,219	10,903,514	10,682,669	16,662,887	16,395,888
Total assets	8,122,455	8,361,262	13,205,624	13,243,019	21,328,079	21,604,281
Deferred outflows of resources	170,728	64,621	26,893	21,662	197,621	86,283
Other liabilities	123,729	92,375	141,702	75,733	265,431	168,108
Long-term liabilities	2,129,579	1,898,044	5,997,619	5,789,892	8,127,198	7,687,936
Total liabilities	2,253,308	1,990,419	6,139,321	5,865,625	8,392,629	7,856,044
Deferred inflows of resources	-	-	-	56,462	-	56,462
Net position						
Net investment in capital assets	4,237,762	4,504,770	5,087,514	5,057,669	9,325,276	9,562,439
Restricted	684,171	879,892	243,973	476,700	928,144	1,356,592
Unrestricted	1,117,942	1,050,802	1,761,709	1,808,225	2,879,651	2,859,027
Total net position	\$6,039,875	\$6,435,464	\$7,093,196	\$7,342,594	\$13,133,071	\$13,778,058

The net position of the City increased by \$765,882 with the governmental activities and business-type activities showing an increase to prior balances. The business-type activities increase in net position of \$370,293 is primarily due to increased usage during the year. The governmental activities increase in net position of \$395,589 is primarily due to reducing expenses.

Net position of the business-type activities was restated at July 1, 2017 to reflect grant related expenses from the prior year.

Summary of Activities

	Governmental Activities		Business-type Activities		Totals	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Revenue						
Program revenue						
Charges for services	\$225,466	\$192,899	\$1,749,020	\$1,864,818	\$1,974,486	\$2,057,717
Operating grants and contributions	429,410	528,278	-	76,374	429,410	604,652
Capital grants and contributions	1,078,874	3,600	155,967	-	1,234,841	3,600
	1,733,750	724,777	1,904,987	1,941,192	3,638,737	2,665,969
General revenue						
Property taxes	1,226,993	1,261,165	-	-	1,226,993	1,261,165
State revenues	323,413	335,334	-	-	323,413	335,334
Unrestricted investment earnings	3,331	9,295	1,204	2,410	4,535	11,705
Other	20	4,996	-	2,891	20	7,887
Total revenues	3,287,507	2,335,567	1,906,191	1,946,493	5,193,698	4,282,060
Expenses						
Legislative	14,272	8,314	-	-	14,272	8,314
General government	405,176	374,843	-	-	405,176	374,843
Public safety	944,905	873,807	-	-	944,905	873,807
Public works	145,421	130,740	-	-	145,421	130,740
Streets	207,888	206,976	-	-	207,888	206,976
Culture and recreation	689,315	331,131	-	-	689,315	331,131
Interest	50,840	45,672	-	-	50,840	45,672
Sewer	-	-	902,172	970,237	902,172	970,237
Water	-	-	553,111	574,458	553,111	574,458
Total expenses	2,457,817	1,971,483	1,455,283	1,544,695	3,913,100	3,516,178
Increase (decrease) in net position before transfers	829,690	364,084	450,908	401,798	1,280,598	765,882
Transfers in (out)	-	31,505	-	(31,505)	-	-
Change in net position	829,690	395,589	450,908	370,293	1,280,598	765,882
Net position-beginning of year	5,210,185	6,039,875	6,642,288	6,972,301	11,852,473	13,012,176
Net position-end of year	\$6,039,875	\$6,435,464	\$7,093,196	\$7,342,594	\$13,133,071	\$13,778,058

Governmental Activities. During the year the City invested \$873,807 or 44% of governmental activities expenses in public safety. General government was \$374,843 or 19% of governmental activities expenses while public works and streets, culture and recreation and interest on long-term debt made up the remaining 37% of governmental activities expenses.

Business-type Activities. Business-type activities increased the City's net position by \$370,293 for the current year. By comparison, business-type activities reported an increase in net position the previous fiscal year of \$450,908.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,384,409, an increase of \$398,849 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$835,370 while total fund balance was \$1,307,379. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 55% of total general fund expenditures and transfers. The City's policy is to maintain its unassigned general fund balance at a minimum of 20% of expenditures. The additional fund balance (above the 20%) has been maintained to weather some of the economic losses predicted in future years.

The fund balance of the City's general fund increased by \$180,056 during the current fiscal year due to several departments finishing the year under budget and increased property tax revenue.

The major streets fund has a total fund balance of \$329,910, which increased by \$118,587 during the year. The balance of this fund is restricted for major streets.

The library fund has a total fund balance of \$200,687, which increased by \$51,211 during the year. The balance of this fund is restricted for library operations.

The debt service fund has a total fund balance of \$5,216, which had no increase or decrease during the year. The balance of this fund is restricted for debt service.

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

Unrestricted net position of the sewer and water funds at the end of the year amounted to \$971,701 and \$836,524, respectively. The sewer fund had an increase in net position for the year of \$244,913 and the water fund had an increase of \$125,380. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between budget and actual activity was the result of the following:

- Planning/zoning increase due to development
- City buildings and grounds - as the city acquires new property/buildings, expenses increase proportionately

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounted to \$16,395,888 (net of accumulated depreciation).

Significant capital purchases during the year consisted of a down payment on a new dump truck, the Muskegon Street sewer main replacement, and upgrading the City's water meters.

The City's capital assets (net of depreciation) are summarized as follows:

Capital Assets			
	Governmental Activities	Business-type Activities	Total
Land	\$ 911,477	\$ 587,635	\$ 1,499,112
Construction in progress	115,109	-	115,109
Buildings, equipment and Infrastructure	4,686,633	10,095,034	14,781,667
Total	\$5,713,219	\$10,682,669	\$16,395,888

Additional information on the City of Cedar Springs' capital assets can be found in Note 4 of these financial statements.

Debt. At the end of the current fiscal year, the City had total debt outstanding as follows:

Debt			
	Governmental Activities	Business-type Activities	Total
Accrued employee benefits	\$ 42,458	\$ -	\$ 42,458
Net pension liability	504,772	164,892	669,664
Installment purchase agreements	60,814	-	60,814
Bonds payable	1,290,000	5,625,000	6,915,000
Total	\$1,898,044	\$5,789,892	\$7,687,936

Additional information on the City's long-term debt can be found in Note 6 of these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2018-19 fiscal year:

- CPI increase in property taxable values
- Planning/zoning expenses for new hotel and commercial development downtown
- Flat revenues for streets
- Flat rates for utilities
- Continue improvements at City Hall
- New jaws for fire department
- New ADA Sidewalk CDBG Project
- Continue upgrades for auto read meters for utility billing

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, PO Box 310, Cedar Springs, Michigan, 49319.

BASIC FINANCIAL STATEMENTS

CITY OF CEDAR SPRINGS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Primary Government			Component Unit
	Governmental	Business-Type	Total	Downtown
	Activities	Activities		Development
				Authority
Assets				
Cash and cash equivalents	\$ 2,497,595	\$ 1,780,451	\$ 4,278,046	\$ 6,534
Accounts receivable	12,908	275,488	288,396	-
Due from other governments	132,615	25,344	157,959	-
Prepaid items	4,925	2,367	7,292	-
Restricted cash and cash equivalents	-	476,700	476,700	-
Capital assets, net				
Land	911,477	587,635	1,499,112	35,901
Construction in progress	115,109	-	115,109	-
Buildings, equipment and infrastructure	4,686,633	10,095,034	14,781,667	-
Total assets	8,361,262	13,243,019	21,604,281	42,435
Deferred outflow of resources				
Deferred charge on refunding	27,256	-	27,256	-
Deferred outflows related to pension	37,365	21,662	59,027	-
Total deferred outflow of resources	64,621	21,662	86,283	-
Liabilities				
Accounts payable and accrued liabilities	80,830	43,741	124,571	1
Accrued interest	11,545	31,992	43,537	-
Noncurrent liabilities				
Compensated absences	42,458	-	42,458	-
Net pension liability	504,772	164,892	669,664	-
Due within one year	214,305	192,000	406,305	-
Due in more than one year	1,136,509	5,433,000	6,569,509	-
Total liabilities	1,990,419	5,865,625	7,856,044	1
Deferred inflow of resources				
Deferred inflows related to pension	-	56,462	56,462	-
Net Position				
Net investment in capital assets	4,504,770	5,057,669	9,562,439	35,901
Restricted for:				
Streets	633,622	-	633,622	-
Christmas tree maintenance	15,000	-	15,000	-
Veteran's park/ Vietnam memorial	15,846	-	15,846	-
Cleo Cowles Memorial Trust	13,725	-	13,725	-
Debt service	-	476,700	476,700	-
Perpetual care:				
Nonexpendable	201,699	-	201,699	-
Unrestricted	1,050,802	1,808,225	2,859,027	6,533
Total net position	\$ 6,435,464	\$ 7,342,594	\$ 13,778,058	\$ 42,434

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

CITY OF CEDAR SPRINGS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 8,314	\$ -	\$ -	\$ -	\$ (8,314)
General government	374,843	140,103	4,087	-	(230,653)
Public safety	873,807	36,848	3,232	-	(833,727)
Public works	130,740	-	-	-	(130,740)
Streets	206,976	-	351,832	-	144,856
Culture and recreation	331,131	15,948	169,127	3,600	(142,456)
Interest on long-term debt	45,672	-	-	-	(45,672)
Total governmental activities	1,971,483	192,899	528,278	3,600	(1,246,706)
Business-type activities					
Sewer	970,237	1,167,058	76,374	-	273,195
Water	574,458	697,760	-	-	123,302
Total business-type activities	1,544,695	1,864,818	76,374	-	396,497
Total primary government	\$ 3,516,178	\$ 2,057,717	\$ 604,652	\$ 3,600	\$ (850,209)
Component unit					
Downtown Development Authority	\$ 5,362	\$ -	\$ -	\$ -	\$ (5,362)

(Continued)

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

CITY OF CEDAR SPRINGS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
Changes in net position				
Net (expense) revenue	<u>\$ (1,246,706)</u>	<u>\$ 396,497</u>	<u>\$ (850,209)</u>	<u>\$ (5,362)</u>
General revenues				
Property taxes				
General operating millage	1,163,915	-	1,163,915	-
Refuse millage	30,263	-	30,263	-
Library millage	66,987	-	66,987	-
State shared revenues	335,334	-	335,334	-
Interest earnings	9,295	2,410	11,705	-
Other revenues	4,996	2,891	7,887	11,499
Transfers	<u>31,505</u>	<u>(31,505)</u>	<u>-</u>	<u>-</u>
Total general revenues	<u>1,642,295</u>	<u>(26,204)</u>	<u>1,616,091</u>	<u>11,499</u>
Change in net position	395,589	370,293	765,882	6,137
Net position, beginning of year, as restated	<u>6,039,875</u>	<u>6,972,301</u>	<u>13,012,176</u>	<u>36,297</u>
Net position, end of year	<u>\$ 6,435,464</u>	<u>\$ 7,342,594</u>	<u>\$ 13,778,058</u>	<u>\$ 42,434</u>

(Concluded)

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

CITY OF CEDAR SPRINGS

GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Major Street</u>	<u>Library</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets						
Cash and cash equivalents	\$ 1,300,489	\$ 291,497	\$ 188,714	\$ 5,216	\$ 527,807	\$ 2,313,723
Receivables:						
Accounts receivable	12,862	-	-	-	-	12,862
Due from other governments	56,659	41,467	19,920	-	14,569	132,615
Prepaid items	<u>3,849</u>	<u>287</u>	<u>72</u>	<u>-</u>	<u>287</u>	<u>4,495</u>
Total assets	<u>\$ 1,373,859</u>	<u>\$ 333,251</u>	<u>\$ 208,706</u>	<u>\$ 5,216</u>	<u>\$ 542,663</u>	<u>\$ 2,463,695</u>
Liabilities and fund balances						
Liabilities						
Accounts payable and accrued liabilities	<u>\$ 66,480</u>	<u>\$ 3,341</u>	<u>\$ 8,019</u>	<u>\$ -</u>	<u>\$ 1,446</u>	<u>\$ 79,286</u>
Fund balances						
Non-spendable						
Prepaid items	3,849	287	72	-	287	4,495
Cleo Cowles Trust	-	-	13,725	-	-	13,725
Perpetual care	-	-	-	-	201,699	201,699
Christmas tree maintenance	15,000	-	-	-	-	15,000
Restricted						
Veteran's park/ Vietnam memorial	15,846	-	-	-	-	15,846
Streets	-	259,623	-	-	303,999	563,622
Streets - critical bridge construction	-	70,000	-	-	-	70,000
Refuse	-	-	-	-	30,397	30,397
Library	-	-	186,890	-	-	186,890
Committed						
Funding of pension liability	225,514	-	-	-	-	225,514
Critical bridge construction	55,000	-	-	-	-	55,000
Assigned						
Debt service	-	-	-	5,216	-	5,216
Sidewalks	-	-	-	-	4,835	4,835
Fire engine restoration	8,000	-	-	-	-	8,000
Fire truck replacement	80,000	-	-	-	-	80,000
Fire equipment	34,800	-	-	-	-	34,800
Rescue vehicle	34,000	-	-	-	-	34,000
Unassigned	<u>835,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>835,370</u>
Total fund balances	<u>1,307,379</u>	<u>329,910</u>	<u>200,687</u>	<u>5,216</u>	<u>541,217</u>	<u>2,384,409</u>
Total liabilities and fund balances	<u>\$ 1,373,859</u>	<u>\$ 333,251</u>	<u>\$ 208,706</u>	<u>\$ 5,216</u>	<u>\$ 542,663</u>	<u>\$ 2,463,695</u>

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

CITY OF CEDAR SPRINGS

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

JUNE 30, 2018

Fund balances - total governmental funds	\$ 2,384,409
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Amounts reported for *governmental activities* in the statement of net position are different because

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

Add - capital assets (net)	5,510,325
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An internal service fund is used by management to charge the costs of centralized services to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities.

Add - net position of governmental activities accounted for in the internal service fund	385,698
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Deferred pension contributions, deficit investment returns, changes in assumptions, and differences in experience are not reported in the funds.

Add - deferred outflows related to pensions	37,365
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Certain liabilities, such as bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Add - deferred charge on refunding	27,256
Deduct - compensated absences payable	(42,458)
Deduct - net pension liability	(504,772)
Deduct - bonds and installment purchase agreements payable	(1,350,814)
Deduct - accrued interest on bonds and installment purchase agreements payable	<u>(11,545)</u>

Net position of governmental activities	<u>\$ 6,435,464</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CEDAR SPRINGS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Major Street</u>	<u>Library</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 1,163,915	\$ -	\$ 66,987	\$ -	\$ 30,263	\$ 1,261,165
Intergovernmental revenue						
State	337,811	266,346	6,569	-	85,185	695,911
Local	-	-	118,846	-	-	118,846
Charges for services	144,284	-	-	-	5,200	149,484
Fines and forfeitures	-	-	50,402	-	-	50,402
Interest	8,291	209	596	-	185	9,281
Rentals	18,400	-	-	-	-	18,400
Other	18,905	-	12,262	-	-	31,167
Total revenues	<u>1,691,606</u>	<u>266,555</u>	<u>255,662</u>	<u>-</u>	<u>120,833</u>	<u>2,334,656</u>
Expenditures						
Current						
Legislative	8,314	-	-	-	-	8,314
General government	348,617	-	-	-	-	348,617
Public safety	815,306	-	-	-	-	815,306
Public works	36,465	-	-	-	52,390	88,855
Streets	-	94,709	-	-	53,448	148,157
Recreation and culture	71,252	-	204,451	-	-	275,703
Debt service						
Principal	-	-	-	203,505	-	203,505
Interest	-	-	-	47,350	-	47,350
Total expenditures	<u>1,279,954</u>	<u>94,709</u>	<u>204,451</u>	<u>250,855</u>	<u>105,838</u>	<u>1,935,807</u>
Revenues over (under) expenditures	<u>411,652</u>	<u>171,846</u>	<u>51,211</u>	<u>(250,855)</u>	<u>14,995</u>	<u>398,849</u>
Other financing sources (uses)						
Transfers in	-	-	-	250,855	34,000	284,855
Transfers out	<u>(231,596)</u>	<u>(53,259)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(284,855)</u>
Total other financing sources (uses)	<u>(231,596)</u>	<u>(53,259)</u>	<u>-</u>	<u>250,855</u>	<u>34,000</u>	<u>-</u>
Net changes in fund balances	180,056	118,587	51,211	-	48,995	398,849
Fund balances, beginning of year	<u>1,127,323</u>	<u>211,323</u>	<u>149,476</u>	<u>5,216</u>	<u>492,222</u>	<u>1,985,560</u>
Fund balances, end of year	<u>\$ 1,307,379</u>	<u>\$ 329,910</u>	<u>\$ 200,687</u>	<u>\$ 5,216</u>	<u>\$ 541,217</u>	<u>\$ 2,384,409</u>

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

CITY OF CEDAR SPRINGS

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

FOR THE YEAR ENDED JUNE 30, 2018

Net changes in fund balances - total governmental funds	\$	398,849
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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, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	24,677
Deduct - depreciation expense	(175,830)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Add - principal payments on bonds and notes	203,505
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in compensated absences	739
Deduct - amortization of deferred charge on refunding	(5,452)
Deduct - decrease in deferred outflows related to pensions	(100,655)
Add - decrease in net pension liability	27,291
Add - decrease in accrued interest	1,678

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net position of this fund is reported with governmental activities.

Add - net income from governmental activities in the internal service fund	<u>20,787</u>
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Change in net position of governmental activities	\$	<u>395,589</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF CEDAR SPRINGS

PROPRIETARY FUNDS STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities		Enterprise	Governmental
	Sewer	Water	Fund	Activities
Assets			Total	Internal Service Fund
Current assets				
Cash and cash equivalents	\$ 907,113	\$ 873,338	\$ 1,780,451	\$ 183,872
Accounts receivable	175,772	99,716	275,488	46
Due from other governments	25,344	-	25,344	-
Prepaid items	72	2,295	2,367	430
Total current assets	1,108,301	975,349	2,083,650	184,348
Noncurrent assets				
Restricted cash and cash equivalents	384,100	92,600	476,700	-
Capital assets, net				
Land	587,635	-	587,635	-
Construction in progress	-	-	-	104,499
Buildings, equipment and infrastructure, net	8,397,073	1,697,961	10,095,034	98,395
Total noncurrent assets	9,368,808	1,790,561	11,159,369	202,894
Total assets	10,477,109	2,765,910	13,243,019	387,242
Deferred outflow of resources				
Deferred outflows related to pensions	8,285	13,377	21,662	-
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	30,186	13,555	43,741	1,544
Accrued interest	25,873	6,119	31,992	-
Current portion of long-term debt	133,000	59,000	192,000	-
Total current liabilities	189,059	78,674	267,733	1,544
Long-term liabilities				
Net pension liability	71,470	93,422	164,892	-
Long-term debt, net of current	4,377,000	1,056,000	5,433,000	-
Total long-term liabilities	4,448,470	1,149,422	5,597,892	-
Total liabilities	4,637,529	1,228,096	5,865,625	1,544
Deferred inflow of resources				
Deferred inflows related to pensions	17,356	39,106	56,462	-
Net position				
Net investment in capital assets	4,474,708	582,961	5,057,669	202,894
Restricted for debt service	384,100	92,600	476,700	-
Unrestricted	971,701	836,524	1,808,225	182,804
Total net position	\$ 5,830,509	\$ 1,512,085	\$ 7,342,594	\$ 385,698

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

CITY OF CEDAR SPRINGS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities		Enterprise Fund Total	Governmental Activities Internal Service Fund
	Sewer	Water		
Operating revenue				
Charges for services	\$ 1,167,058	\$ 697,760	\$ 1,864,818	\$ 113,754
Other	1,482	1,409	2,891	617
Total operating revenue	<u>1,168,540</u>	<u>699,169</u>	<u>1,867,709</u>	<u>114,371</u>
Operating expense				
Personnel services	96,005	144,980	240,985	31,666
Benefits	52,565	85,834	138,399	11,662
Professional services	251,742	49,018	300,760	895
Material and supplies	16,747	22,737	39,484	15,725
Telephone	9,383	697	10,080	1,785
Utilities	129,624	22,454	152,078	582
Insurance and bonds	8,923	1,637	10,560	5,567
Repair and maintenance	21,711	42,027	63,738	11,551
Rent	-	3,000	3,000	15,400
Equipment rentals	5,842	17,439	23,281	-
Depreciation	194,680	93,982	288,662	31,005
Miscellaneous	20,224	2,197	22,421	162
Total operating expense	<u>807,446</u>	<u>486,002</u>	<u>1,293,448</u>	<u>126,000</u>
Operating income (loss)	<u>361,094</u>	<u>213,167</u>	<u>574,261</u>	<u>(11,629)</u>
Non-operating revenue (expense)				
Loss on disposal of capital assets	(22,166)	(49,814)	(71,980)	-
State grant	76,374	-	76,374	-
Interest income	1,741	669	2,410	911
Interest expense	(140,625)	(38,642)	(179,267)	-
Total non-operating revenue (expense)	<u>(84,676)</u>	<u>(87,787)</u>	<u>(172,463)</u>	<u>911</u>
Income (loss) before other items	276,418	125,380	401,798	(10,718)
Transfers				
Transfers in	-	-	-	31,505
Transfers out	(31,505)	-	(31,505)	-
Total transfers	<u>(31,505)</u>	<u>-</u>	<u>(31,505)</u>	<u>31,505</u>
Changes in net position	244,913	125,380	370,293	20,787
Net position, beginning of year, as restated	<u>5,585,596</u>	<u>1,386,705</u>	<u>6,972,301</u>	<u>364,911</u>
Net position, end of year	<u>\$ 5,830,509</u>	<u>\$ 1,512,085</u>	<u>\$ 7,342,594</u>	<u>\$ 385,698</u>

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

CITY OF CEDAR SPRINGS

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities		Enterprise	Governmental
	Sewer	Water	Fund	Activities
			Total	Internal
				Service
				Fund
Cash flows from operating activities				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ 114,371
Receipts from customers and users	1,175,110	676,502	1,851,612	-
Payments to employees	(132,786)	(201,632)	(334,418)	(43,328)
Payments to suppliers	(509,929)	(177,949)	(687,878)	(52,700)
Net cash provided by (used in) operating activities	532,395	296,921	829,316	18,343
Cash flows from non-capital financing activities				
State grant	76,374	-	76,374	-
Cash flows from capital and related financing activities				
Payments on debt	(132,000)	(59,000)	(191,000)	-
Interest expense	(143,471)	(37,403)	(180,874)	-
Acquisition of capital assets	(216,625)	(75,572)	(292,197)	(104,499)
Net cash provided by (used in) capital and related financing activities	(492,096)	(171,975)	(664,071)	(104,499)
Cash flows from investing activities				
Interest income	1,741	669	2,410	911
Net increase (decrease) in cash and cash equivalents	118,414	125,615	244,029	(85,245)
Cash and cash equivalents, beginning of year	1,172,799	840,323	2,013,122	269,117
Cash and cash equivalents, end of year	\$ 1,291,213	\$ 965,938	\$ 2,257,151	\$ 183,872
Cash flows from operating activities				
Operating income (loss)	\$ 361,094	\$ 213,167	\$ 574,261	\$ (11,629)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities				
Depreciation	194,680	93,982	288,662	31,005
Deferred outflows of resources	4,150	1,081	5,231	-
Deferred inflows of resources	17,356	39,106	56,462	-
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(48,234)	(22,667)	(70,901)	-
Due from other governments	54,804	-	54,804	-
Prepaid items	1,168	718	1,886	(16)
Accounts payable and accrued liabilities	(46,901)	(17,461)	(64,362)	(1,017)
Net pension liability	(5,722)	(11,005)	(16,727)	-
Net cash provided by (used in) operating activities	\$ 532,395	\$ 296,921	\$ 829,316	\$ 18,343
Cash and cash equivalents are included in the following captions on the statement of net position				
Cash and cash equivalents	\$ 907,113	\$ 873,338	\$ 1,780,451	\$ 183,872
Restricted cash and cash equivalents	384,100	92,600	476,700	-
	\$ 1,291,213	\$ 965,938	\$ 2,257,151	\$ 183,872
Supplemental cash flow information				
Non-cash transfer of capital asset	\$ (31,505)	\$ -	\$ (31,505)	\$ 31,505

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

CITY OF CEDAR SPRINGS
AGENCY FUND
STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 2018

Assets

Cash and cash equivalents	\$ 10,481
Accounts receivable	<u>135</u>

Total assets	\$ <u>10,616</u>
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Liabilities

Accounts payable	<u>\$ 10,616</u>
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Total liabilities	\$ <u>10,616</u>
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The accompanying notes are an integral part of these financial statements.

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CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cedar Springs, Michigan (the "City") was incorporated December 19, 1959 under the provisions of Act 279, P.A. 1909, as amended. The City operates under a council-manager form of government and provides services as authorized by its charter.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

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

Discretely Presented Component Unit

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown area and promote economic growth within downtown. The DDA governing body consists of individuals that are appointed by the City's Council. The City Council approves the DDA's budget and expenditures and has the ability to significantly influence operations of the DDA. Financial statements are not separately issued for the DDA.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service fund are charges to City departments for repairs and equipment utilization. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal fund includes the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

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

The *Major Streets Fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax.

The *Library Special Revenue Fund* accounts for the operations of the City library. The ongoing operations of the library are primarily funded through a tax levy, contributions from another local unit of government, and penal fines.

The *Debt Service Fund* accounts for the resources accumulated for the repayment of long-term debt.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on bonds which were used to finance improvements to the system.

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

The *Water Enterprise Fund* is used to account for the cost of providing water services to customers. Revenues are primarily charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Permanent Fund* is used to record activity of legal trusts for which the interest on the corpus provides funds for the City cemetery operations.

The *Internal Service Fund* is used to account for the revenues and costs of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis. The City maintains one Internal Service Fund for motor pool operations.

The *Agency Fund* is used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted at the activity level.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Agency Funds.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621. The appropriations ordinances are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. The City did amend its budget during the year. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
7. Budgeted amounts are as originally adopted, or as amended, by the City Council.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectable balances at year end were immaterial.

Statutory Authority

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

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

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) on the date received. The amount reported for infrastructure includes only assets added since 2003.

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

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

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

	<u>Years</u>
Buildings	40
Office furniture and equipment	3-10
Vehicles	3-25
Public domain infrastructure	40
System infrastructure	5-75

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. These summer tax bills include the City's own property taxes. Real property taxes not collected are turned over to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The deferred charge on refunding is considered a deferred outflow and is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category related to the net pension liability which are discussed in Note 7.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

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

The City's policy requires the general fund to maintain 20% of budgeted expenditures in unassigned fund balance.

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Compensated Absences

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Obligations

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

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

Restricted Assets

Certain resources set aside for the repayment of the City's enterprise fund revenue bonds, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Risk Management

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

PA. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown at the functional level. The approved budgets of the City for these budgetary funds were adopted at the activity level. During the current year, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
General Fund			
General government			
City hall and grounds	\$ 46,715	\$ 48,993	\$(2,278)
Planning commission	26,025	27,046	(1,021)
Public works			
Street lighting	35,500	36,465	(965)
Recreation and culture	70,270	71,252	(982)
Library Fund			
Recreation and culture	195,138	204,451	(9,313)

3. DEPOSITS

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

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Activities</u>	<u>Component Unit</u>	<u>Total</u>
Cash and cash equivalents	\$2,497,595	\$1,780,451	\$10,481	\$6,534	\$4,295,061
Restricted cash and cash equivalents	-	476,700	-	-	476,700
	<u>\$2,497,595</u>	<u>\$2,257,151</u>	<u>\$10,481</u>	<u>\$6,534</u>	<u>\$4,771,761</u>

Restricted cash and cash equivalents represent amounts set aside in accordance with various bond requirements. The following amounts are restricted at June 30, 2018:

	<u>Sewer Fund</u>	<u>Water Fund</u>
USDA 2015 Bond Reserve Fund	\$ 29,100	\$12,600
USDA 2015 reserve for replacement and improvements	156,000	54,000
2002 Water revenue bonds	-	26,000
2015 Sewer refunding bonds	199,000	-
	<u>\$384,100</u>	<u>\$92,600</u>

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

Deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$3,647,390 of the City's bank balance of \$4,835,826 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 911,477	\$ -	\$ -	\$ 911,477
Construction in Progress	-	115,109	-	115,109
Total capital assets, not being depreciated	911,477	115,109	-	1,026,586
Capital assets, being depreciated				
Building and improvements	2,189,621	-	-	2,189,621
Vehicles and equipment	1,348,435	31,505	-	1,379,940
Infrastructure	4,074,758	14,067	-	4,088,825
Total capital assets, being depreciated	7,612,814	45,572	-	7,658,386
Less accumulated depreciation for:				
Building and improvements	474,908	51,537	-	526,445
Vehicles and equipment	1,096,549	52,727	-	1,149,276
Infrastructure	1,193,461	102,571	-	1,296,032
Total accumulated depreciation	2,764,918	206,835	-	2,971,753
Net capital assets, being depreciated	4,847,896	(161,263)	-	4,686,633
Governmental Activities capital assets, net	\$5,759,373	\$ (46,154)	\$ -	\$5,713,219

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2018</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 587,635	\$ -	\$ -	\$ 587,635
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>587,635</u>	<u>-</u>	<u>-</u>	<u>587,635</u>
Capital assets being depreciated				
Water system	2,705,478	75,572	193,465	2,587,585
Sewer system	11,147,266	216,625	123,669	11,240,222
Total capital assets, being depreciated	<u>13,852,744</u>	<u>292,197</u>	<u>317,134</u>	<u>13,827,807</u>
Less accumulated depreciation for:				
Water system	939,293	93,982	143,651	889,624
Sewer system	2,718,467	194,680	69,998	2,843,149
Total accumulated depreciation	<u>3,657,760</u>	<u>288,662</u>	<u>213,649</u>	<u>3,732,773</u>
Net capital assets, being depreciated	<u>10,194,984</u>	<u>3,535</u>	<u>103,485</u>	<u>10,095,034</u>
Business-type Activities capital assets, net	<u>\$10,782,619</u>	<u>\$ 3,535</u>	<u>\$103,485</u>	<u>\$10,682,669</u>
 Component Unit				
Downtown Development Authority				
Land	<u>\$35,901</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$35,901</u>

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

Governmental Activities	
General government	\$ 2,934
Public safety	21,436
Public works	102,571
Culture and recreation	48,889
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	<u>31,005</u>
Total depreciation expense - governmental activities	<u>\$206,835</u>
 Business-type Activities	
Sewer	\$194,680
Water	<u>93,982</u>
Total depreciation expense – business- type activities	<u>\$288,662</u>

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

5. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2018 are as follows:

<u>Transfers in</u>	<u>Transfers out</u>			<u>Total</u>
	<u>General fund</u>	<u>Major streets fund</u>	<u>Sewer fund</u>	
Debt service	\$231,596	\$19,259	\$ -	\$250,855
Non-major funds	-	34,000	31,505	65,505
	\$231,596	\$53,259	\$31,505	\$316,360

Transfers are used to allocate administrative costs and move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them. The transfer from the sewer fund was equipment which is maintained by the internal service fund.

6. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2018.

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Governmental Activities					
\$1,595,000 General Obligation Refunding Bonds, Series 2012. Bonds due in annual installments of \$20,000 to \$205,000 through April 2023; interest at 1.1% - 2.5%	\$1,055,000	\$ -	\$150,000	\$905,000	\$160,000
\$700,000 Capital Improvement Bonds due in annual installments of \$25,000 to \$50,000 through October 2027; interest at 3.85%	420,000	-	35,000	385,000	35,000
\$146,000 Installment Purchase Agreement due in annual installments of \$13,353 through December 2020; including interest at 4.42%	48,565	-	11,306	37,259	11,789
\$88,000 Installment Purchase Agreement due in annual installments of \$8,552 through September 2020; including interest at 4.40%	30,754	-	7,199	23,555	7,516
Total debt	1,554,319	-	203,505	1,350,814	214,305
Deferred charge on refunding	(32,708)	-	(5,452)	(27,256)	(5,452)
Accrued employee benefits	43,197	-	739	42,458	-
Total Governmental Activities	1,564,808	-	198,792	1,366,016	208,853

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Balance</u> <u>July 1,</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2018</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
Business-type Activities					
\$3,000,000 Sanitary Sewer System Revenue Refunding Bonds, Series 2015. Bonds due in annual installments of \$110,000 to \$175,000 through March 2037 interest at 1.25% to 4.25%	\$2,555,000	\$ -	\$100,000	\$2,455,000	\$100,000
\$2,152,000 Sanitary Sewer System Revenue Bonds, Series 2015. Bonds due in annual installments of \$34,000 to \$87,000 through June 2055 interest at 2.75%	2,087,000	-	32,000	2,055,000	33,000
\$931,000 Water Supply System Revenue Bonds, Series 2015. Bonds due in annual installments of \$12,000 to \$38,000 through June 2055 interest at 2.75%	869,000	-	14,000	855,000	14,000
\$750,000 Water Supply System Revenue Bonds, Series 2002. Bonds due in annual installments of \$25,000 to \$60,000 through September 2022; interest at 4.50% - 4.80%	305,000	-	45,000	260,000	45,000
Total Business-type Activities	5,816,000	-	191,000	5,625,000	192,000
Total	\$7,380,808	\$ -	\$389,792	\$6,991,016	\$400,853

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits and deferred charges) as of June 30, 2018 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 214,305	\$ 41,939	\$ 192,000	\$ 176,081
2020	225,140	36,141	198,000	170,761
2021	241,369	29,922	205,000	165,191
2022	230,000	23,042	211,000	159,194
2023	250,000	16,639	217,000	152,671
2023-2027	190,000	23,764	869,000	687,270
2028-2032	-	-	1,020,000	536,900
2033-2037	-	-	1,031,000	333,887
2038-2042	-	-	425,000	208,560
2043-2047	-	-	487,000	146,795
2048-2052	-	-	560,000	75,900
2053-2057	-	-	210,000	8,195
Total	\$1,350,814	\$171,447	\$5,625,000	\$2,821,405

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

7. PENSION PLAN

Defined Benefit Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits provided

Benefits provided include plans with multipliers ranging from 1 to 2.25. Vesting period of 6 to 10 years. Normal retirement age is 60 with early retirement at 55 with 15 years of service. Final average compensation is calculated based on 3 years.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2017):

Active plan members	9
Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled but not yet receiving benefits	11
	<hr/>
Total	36

Contributions

The City is required to contribute at an actuarially determined rate, which for the current year was 6.00% of annual covered payroll. For divisions closed to new employees the employer has monthly employer contributions of \$2,770. Participating employees are required to contribute from 0% to 5% percent of gross wages to the Plan based on position and classification. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5% for 2017 and 2016

Salary Increases: base wage inflation of 3.75% in the long-term (plus merit and longevity from 0 to 11% based on age) for 2017 and 2016

Investment rate of return: 7.75%, net of investment expense, including inflation for 2017 and 2016

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees for 2017 and 2016

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Money Weighted Rate of Return*</u>
Global Equity	57.5%	6.27%	3.60%
Global Fixed Income	20.0%	3.43%	0.68%
Real Assets	12.5%	5.48%	0.69%
Diversifying Strategies	10.0%	7.81%	0.78%
Inflation			2.00%
Administrative fee			0.25%
Investment rate of return			8.00%

Discount rate. The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7%) or 1% higher (9%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount rate</u>	<u>1 % increase</u>
Total Pension Liability	\$3,781,806	\$3,435,205	\$3,147,393
Fiduciary Net Position	2,765,541	2,765,541	2,765,541
Net Pension Liability	<u>\$1,016,265</u>	<u>\$ 669,664</u>	<u>\$ 381,852</u>

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at January 1, 2017	\$3,315,506	\$2,601,824	\$713,682
Changes for the year:			
Service Cost	29,431	-	29,431
Interest	257,545	-	257,545
Change in benefits	-	-	-
Differences between expected and actual experience	54,524	-	54,524
Change in assumptions	-	-	-
Contributions: employer	-	44,888	(44,888)
Contributions: employee	-	9,466	(9,466)
Net investment income	-	336,506	(336,506)
Benefit payments, including refunds	(221,801)	(221,801)	-
Administrative expense	-	(5,342)	5,342
Other changes	-	-	-
Net changes	119,699	163,717	(44,018)
Balance at December 31, 2017	\$3,435,205	\$2,765,541	\$669,664

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2018 the employer recognized pension expense of \$168,400. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$27,261	\$ -
Differences in assumptions	-	-
Excess (deficit) investment returns	6,537	56,462
Contributions subsequent to the measurement date*	25,229	-
Total	\$59,027	\$56,462

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending 2019.

Amounts reported as deferred outflows and inflows of resources related to pensions (excluding contributions subsequent to the measurement date) will be recognized in pension expense as follows:

2019	\$ 42,597
2020	5,797
2021	(44,007)
2022	(27,051)
Total	\$(22,664)

CITY OF CEDAR SPRINGS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

Defined Contribution Plan

The City provides a defined contribution pension plan, which provides pension benefits to qualified employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City is not required to contribute to the plan. Participants contribute from 5% of covered wages. Participant contributions were \$14,025 to the plan during the year. The plan provisions and contribution amounts were established by the City Council and may be amended by the Council.

8. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for the employees and the related assets and liabilities are not included in this report.

9. CLEO COWLES TRUST

The library benefits from a trust established by Cleo Cowles. The library has no control over the principal of this trust and is entitled only to the income to be used for general operation of the Library Special Revenue Fund. This trust is administered by the City and has a principal balance of \$13,725.

10. SUBSEQUENT EVENT

Subsequent to year-end, the City issued an installment note for approximately \$104,500.

11. PRIOR PERIOD ADJUSTMENT

Beginning net position of the business-type activities and of the sewer fund was decreased by \$120,895 to properly report construction in progress at July 1, 2017.

12. TAX ABATEMENTS

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Tax Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. An Industrial Facilities Tax Exemption (IFTE) certificate entitles the facility to a partial exemption from ad valorem real and/or personal property taxes for a term of 12 years for real property and 6 years for personal property as determined by the local unit of government. The IFTE is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%. The agreements entered into by the City include claw back provisions should the recipient of the tax abatement cease operations and no successor employer is providing employment during the term of the abatement.

For the year ended June 30, 2018 the City abated property tax revenues of approximately \$15,000.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CEDAR SPRINGS

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes	\$ 1,163,660	\$ 1,160,985	\$ 1,163,915	\$ 2,930
Intergovernmental revenue				
State	327,740	327,740	337,811	10,071
Charges for services	130,500	130,500	144,284	13,784
Fines and forfeitures	300	300	-	(300)
Interest	1,500	1,500	8,291	6,791
Rentals	18,400	18,400	18,400	-
Other	12,000	12,000	18,905	6,905
Total revenues	<u>1,654,100</u>	<u>1,651,425</u>	<u>1,691,606</u>	<u>40,181</u>
Expenditures				
Current				
Legislative	11,210	11,210	8,314	2,896
General government	410,865	410,997	348,617	62,380
Public safety	912,973	912,973	815,306	97,667
Public works	36,300	36,300	36,465	(165)
Recreation and culture	70,270	70,270	71,252	(982)
Total expenditures	<u>1,441,618</u>	<u>1,441,750</u>	<u>1,279,954</u>	<u>161,796</u>
Revenues over (under) expenditures	<u>212,482</u>	<u>209,675</u>	<u>411,652</u>	<u>201,977</u>
Other financing sources (uses)				
Transfers out	(223,044)	(235,104)	(231,596)	3,508
Net changes in fund balance	(10,562)	(25,429)	180,056	205,485
Fund balance, beginning of year	<u>1,127,323</u>	<u>1,127,323</u>	<u>1,127,323</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,116,761</u>	<u>\$ 1,101,894</u>	<u>\$ 1,307,379</u>	<u>\$ 205,485</u>

CITY OF CEDAR SPRINGS

MAJOR STREET FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Intergovernmental revenue				
State	\$ 220,200	\$ 220,200	\$ 266,346	\$ 46,146
Interest	100	100	209	109
	<u>220,300</u>	<u>220,300</u>	<u>266,555</u>	<u>46,255</u>
Total revenues	220,300	220,300	266,555	46,255
Expenditures				
Current				
Streets	<u>156,460</u>	<u>156,460</u>	<u>94,709</u>	<u>61,751</u>
Revenues over (under) expenditures	63,840	63,840	171,846	108,006
Other financing sources (uses)				
Transfers out	<u>(63,810)</u>	<u>(63,810)</u>	<u>(53,259)</u>	<u>10,551</u>
Net changes in fund balances	30	30	118,587	118,557
Fund balances, beginning of year	<u>211,323</u>	<u>211,323</u>	<u>211,323</u>	<u>-</u>
Fund balances, end of year	<u>\$ 211,353</u>	<u>\$ 211,353</u>	<u>\$ 329,910</u>	<u>\$ 118,557</u>

CITY OF CEDAR SPRINGS

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes	\$ 67,770	\$ 67,770	\$ 66,987	\$ (783)
Intergovernmental revenue				
State	5,000	5,000	6,569	1,569
Local	92,845	108,845	118,846	10,001
Fines and forfeitures	21,550	29,050	50,402	21,352
Interest	55	55	596	541
Other	<u>6,000</u>	<u>6,000</u>	<u>12,262</u>	<u>6,262</u>
Total revenues	193,220	216,720	255,662	38,942
Expenditures				
Current				
Recreation and culture	<u>176,800</u>	<u>195,138</u>	<u>204,451</u>	<u>(9,313)</u>
Net changes in fund balances	16,420	21,582	51,211	29,629
Fund balances, beginning of year	<u>149,476</u>	<u>149,476</u>	<u>149,476</u>	<u>-</u>
Fund balances, end of year	<u>\$ 165,896</u>	<u>\$ 171,058</u>	<u>\$ 200,687</u>	<u>\$ 29,629</u>

CITY OF CEDAR SPRINGS

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

FOR THE YEAR ENDED JUNE 30, 2018

	2014	2015	2016	2017
Total pension liability				
Service cost	\$ 38,817	\$ 34,133	\$ 36,452	\$ 29,431
Interest	227,850	234,224	244,761	257,545
Changes in benefit terms	-	-	-	-
Difference between expected and actual experience	-	(22,856)	88,925	54,524
Changes in assumptions	-	159,361	-	-
Benefit payments including employee refunds	(194,770)	(179,345)	(191,836)	(221,801)
Other	-	-	-	-
Net change in total pension liability	<u>71,897</u>	<u>225,517</u>	<u>178,302</u>	<u>119,699</u>
Total pension liability, beginning of year	<u>2,839,790</u>	<u>2,911,687</u>	<u>3,137,204</u>	<u>3,315,506</u>
Total pension liability, end of year	<u>\$ 2,911,687</u>	<u>\$ 3,137,204</u>	<u>\$ 3,315,506</u>	<u>\$ 3,435,205</u>
Plan Fiduciary Net Position				
Contributions-employer	\$ 72,247	\$ 63,508	\$ 49,417	\$ 44,888
Contributions-employee	28,694	12,949	13,170	9,466
Net Investment income	159,724	(38,394)	276,198	336,506
Benefit payments including employee refunds	(194,770)	(179,345)	(191,836)	(221,801)
Administrative expense	(5,848)	(5,649)	(5,454)	(5,342)
Net change in plan fiduciary net position	<u>60,047</u>	<u>(146,931)</u>	<u>141,495</u>	<u>163,717</u>
Plan fiduciary net position, beginning of year	<u>2,547,213</u>	<u>2,607,260</u>	<u>2,460,329</u>	<u>2,601,824</u>
Plan fiduciary net position, end of year	<u>\$ 2,607,260</u>	<u>\$ 2,460,329</u>	<u>\$ 2,601,824</u>	<u>\$ 2,765,541</u>
Employer net pension liability	<u>\$ 304,427</u>	<u>\$ 676,875</u>	<u>\$ 713,682</u>	<u>\$ 669,664</u>
Plan fiduciary net position as a percentage of the total pension liability	90%	78%	78%	81%
Covered employee payroll	\$ 418,119	\$ 338,143	\$ 409,485	\$ 419,606
Employer's net pension liability as a percentage of covered employee payroll	73%	200%	174%	160%

Notes to schedule:

Above data is based on a December 31 measurement date.

This schedule is being accumulated prospectively until ten years of data is presented.

CITY OF CEDAR SPRINGS
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2015	2016	2017	2018
Actuarial determined contributions	\$ 60,510	\$ 68,840	\$ 35,940	\$ 53,260
Contributions in relation to the actuarially determined contribution	60,510	68,840	35,940	53,260
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 418,119	\$ 338,143	\$ 409,485	\$ 419,606
Contributions as a percentage of covered employee payroll	14%	20%	9%	13%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed (10 years for 2014)
Inflation	2.5% (3-4% for 2014)
Salary increases	3.75% (4.5 for 2014)
Investment rate of return	7.75% (8.00 for 2014)
Retirement age	Varies depending on plan adoption
Mortality	50% female/ 50% male RP-2014 mortality table

Note to schedule:

This schedule is being accumulated prospectively until ten years of data is presented.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF CEDAR SPRINGS

GENERAL FUND SCHEDULE OF EXPENDITURES AND TRANSFERS BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current				
Legislative-City Council	\$ 11,210	\$ 11,210	\$ 8,314	\$ 2,896
General government				
City manager	31,695	31,695	24,215	7,480
Elections	5,550	5,550	2,611	2,939
Assessor	25,440	25,440	24,950	490
City attorney	35,000	35,000	16,299	18,701
Clerk	32,935	32,935	31,270	1,665
Board of review	900	1,032	936	96
General administration	86,185	86,185	85,941	244
City hall and grounds	46,715	46,715	48,993	(2,278)
Cemetery	70,600	70,600	56,942	13,658
Information technology	16,470	16,470	13,255	3,215
Code enforcement	19,680	19,680	14,513	5,167
Planning commission	26,025	26,025	27,046	(1,021)
Other	13,670	13,670	1,646	12,024
Total general government	410,865	410,997	348,617	62,380
Public safety				
Police department	667,428	667,428	654,450	12,978
Fire department	245,545	245,545	160,856	84,689
Total public safety	912,973	912,973	815,306	97,667
Public works				
Street lighting	35,500	35,500	36,465	(965)
Other public works	800	800	-	800
Total public works	36,300	36,300	36,465	(165)
Recreation and culture	70,270	70,270	71,252	(982)
Total expenditures	1,441,618	1,441,750	1,279,954	161,796
Other financing uses				
Transfers out	223,044	235,104	231,596	3,508
Total expenditures and other financing uses	\$ 1,664,662	\$ 1,676,854	\$ 1,511,550	\$ 165,304

CITY OF CEDAR SPRINGS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>Special Revenue</u>			<u>Permanent</u>	
	<u>Local Street</u>	<u>Refuse Pickup & Disposal</u>	<u>Sidewalk</u>	<u>Cemetery Trust</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 290,746	\$ 30,527	\$ 4,835	\$ 201,699	\$ 527,807
Due from other governments	14,569	-	-	-	14,569
Prepaid items	287	-	-	-	287
Total assets	<u>\$ 305,602</u>	<u>\$ 30,527</u>	<u>\$ 4,835</u>	<u>\$ 201,699</u>	<u>\$ 542,663</u>
Liabilities and fund balances					
Liabilities					
Accounts payable and accrued liabilities	\$ 1,316	\$ 130	\$ -	\$ -	\$ 1,446
Fund balances					
Non-spendable					
Prepaid items	287	-	-	-	287
Perpetual care	-	-	-	201,699	201,699
Restricted					
Streets	303,999	-	-	-	303,999
Refuse	-	30,397	-	-	30,397
Assigned					
Sidewalks	-	-	4,835	-	4,835
Total fund balances	<u>304,286</u>	<u>30,397</u>	<u>4,835</u>	<u>201,699</u>	<u>541,217</u>
Total liabilities and fund balances	<u>\$ 305,602</u>	<u>\$ 30,527</u>	<u>\$ 4,835</u>	<u>\$ 201,699</u>	<u>\$ 542,663</u>

CITY OF CEDAR SPRINGS

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Special Revenue</u>			<u>Permanent</u>	
	<u>Local Street</u>	<u>Refuse Pickup & Disposal</u>	<u>Sidewalk</u>	<u>Cemetery Trust</u>	<u>Total</u>
Revenues					
Taxes	\$ -	\$ 30,263	\$ -	\$ -	\$ 30,263
Intergovernmental revenue					
State	85,185	-	-	-	85,185
Charges for services	-	-	-	5,200	5,200
Interest	92	17	8	68	185
Total revenues	<u>85,277</u>	<u>30,280</u>	<u>8</u>	<u>5,268</u>	<u>120,833</u>
Expenditures					
Current					
General government					
Public works	-	33,479	18,911	-	52,390
Streets	53,448	-	-	-	53,448
Total expenditures	<u>53,448</u>	<u>33,479</u>	<u>18,911</u>	<u>-</u>	<u>105,838</u>
Revenues over (under) expenditures	31,829	(3,199)	(18,903)	5,268	14,995
Other financing sources (uses)					
Transfers in	34,000	-	-	-	34,000
Net changes in fund balances	65,829	(3,199)	(18,903)	5,268	48,995
Fund balances, beginning of year	<u>238,457</u>	<u>33,596</u>	<u>23,738</u>	<u>196,431</u>	<u>492,222</u>
Fund balances, end of year	<u>\$ 304,286</u>	<u>\$ 30,397</u>	<u>\$ 4,835</u>	<u>\$ 201,699</u>	<u>\$ 541,217</u>

CITY OF CEDAR SPRINGS

LOCAL STREET FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Intergovernmental revenue				
State	\$ 73,000	\$ 73,000	\$ 85,185	\$ 12,185
Interest	-	-	92	92
Total revenues	73,000	73,000	85,277	12,277
Expenditures				
Current				
Streets	91,595	91,595	53,448	38,147
Revenues over (under) expenditures	(18,595)	(18,595)	31,829	50,424
Other financing sources (uses)				
Transfers in	34,000	34,000	34,000	-
Transfers out	(13,975)	(13,975)	-	13,975
Total other financing sources (uses)	20,025	20,025	34,000	13,975
Net changes in fund balances	1,430	1,430	65,829	64,399
Fund balances, beginning of year	238,457	238,457	238,457	-
Fund balances, end of year	\$ 239,887	\$ 239,887	\$ 304,286	\$ 64,399

CITY OF CEDAR SPRINGS

REFUSE PICKUP & DISPOSAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes	\$ 31,044	\$ 31,044	\$ 30,263	\$ (781)
Interest	<u>20</u>	<u>20</u>	<u>17</u>	<u>(3)</u>
Total revenues	31,064	31,064	30,280	(784)
Expenditures				
Current				
Public works	<u>30,345</u>	<u>34,025</u>	<u>33,479</u>	<u>546</u>
Net changes in fund balances	719	(2,961)	(3,199)	(238)
Fund balances, beginning of year	<u>33,596</u>	<u>33,596</u>	<u>33,596</u>	<u>-</u>
Fund balances, end of year	<u>\$ 34,315</u>	<u>\$ 30,635</u>	<u>\$ 30,397</u>	<u>\$ (238)</u>

CITY OF CEDAR SPRINGS

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Interest	\$ -	\$ -	\$ 8	\$ 8
Expenditures				
Current				
Public works	<u>-</u>	<u>20,000</u>	<u>18,911</u>	<u>1,089</u>
Net changes in fund balances	-	(20,000)	(18,903)	1,097
Fund balances, beginning of year	<u>23,738</u>	<u>23,738</u>	<u>23,738</u>	<u>-</u>
Fund balances, end of year	<u>\$ 23,738</u>	<u>\$ 3,738</u>	<u>\$ 4,835</u>	<u>\$ 1,097</u>

CITY OF CEDAR SPRINGS

DOWNTOWN DEVELOPMENT AUTHORITY BALANCE SHEET/STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental Fund Types</u>		<u>Statement of</u>
	<u>General</u>	<u>Adjustments</u>	<u>Net Position</u>
Assets	Fund		
Cash and cash equivalents	\$ 6,534	\$ -	\$ 6,534
Land	<u>-</u>	<u>35,901</u>	<u>35,901</u>
Total assets	<u>\$ 6,534</u>	<u>35,901</u>	<u>42,435</u>
Liabilities and fund balances/net position			
Liabilities			
Accounts payable and accrued liabilities	\$ 1	<u>-</u>	<u>1</u>
Fund balances			
Unassigned	<u>6,533</u>	<u>(6,533)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 6,534</u>	<u>(6,533)</u>	<u>1</u>
Net position			
Net investment in capital assets		35,901	35,901
Unrestricted		<u>6,533</u>	<u>6,533</u>
Total net position			<u>\$ 42,434</u>

CITY OF CEDAR SPRINGS

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

FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Fund Types		Statement of Activities
	General Fund	Adjustments	
Revenues			
Miscellaneous	\$ 11,499	\$ -	\$ 11,499
Expenditures/expenses			
Current			
Public works	<u>5,362</u>	<u>-</u>	<u>5,362</u>
Net changes in fund balance	6,137	(6,137)	
Change in net position		6,137	6,137
Fund balance/net position, beginning of year	<u>396</u>		<u>36,297</u>
Fund balance/net position, end of year	<u>\$ 6,533</u>		<u>\$ 42,434</u>

INTERNAL CONTROL AND COMPLIANCE



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

September 13, 2018

Honorable Mayor and Members of the City Council
City of Cedar Springs, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cedar Springs, Michigan, (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 13, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Orlando Haefner LLC