
City of South Lyon, Michigan

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

City of South Lyon, Michigan Financial Report June 30, 2017

Mayor John Galeas, Jr.

City Council

Harvey Wedell, Mayor Pro Tem

Mary Dedakis

Glenn Kivell

Michael Kramer

Margaret Kurtzweil

Joseph Rzyzi

City Administration

City Manager

City Clerk/Treasurer

Police Chief

Fire Chief

Water and Wastewater Treatment Superintendent/Director of DPW

Bookkeeper

Lynne Ladner

Lisa Deaton

Lloyd Collins

Michael Kennedy

Robert Martin

Lori Mosier

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Independent Auditor's Report

To the Mayor and Members of the City Council
City of South Lyon, 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 South Lyon, Michigan (the "City") as of and for the year then ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City of South Lyon, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 South Lyon, Michigan as of June 30, 2017 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Mayor and Members of the City Council
City of South Lyon, Michigan

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplemental information and the statistical information, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Plante & Moran, PLLC

October 8, 2017

June 30, 2017

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

Financial Highlights

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

- Expenditures exceeded revenue in the General Fund, thus decreasing fund balance by approximately \$177,000. This was lower than the final amended budget, which expected a decrease of approximately \$456,000. Total net position related to the City's governmental activities decreased by approximately \$953,000.

Using this Annual Report

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

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

Management’s Discussion and Analysis (Continued)

June 30, 2017

The City of South Lyon as a Whole

The following table shows, in a condensed format, the net position as of June 30, 2017 and 2016 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets and other	\$ 8,383	\$ 7,769	\$ 9,576	\$ 9,473	\$ 17,959	\$ 17,242
Capital assets	18,918	20,096	29,043	29,777	47,961	49,873
Total assets	27,301	27,865	38,619	39,250	65,920	67,115
Deferred Outflows	848	1,305	186	304	1,034	1,609
Liabilities						
Current liabilities	457	384	172	177	629	561
Long-term liabilities	5,170	5,369	12,245	13,295	17,415	18,664
Total liabilities	5,627	5,753	12,417	13,472	18,044	19,225
Deferred Inflows	126	68	28	16	154	84
Net Position						
Net investment in capital assets	18,658	19,716	17,930	17,694	36,588	37,410
Restricted	2,422	2,225	4,465	4,577	6,887	6,802
Unrestricted	1,316	1,408	3,965	3,795	5,281	5,203
Total net position	\$ 22,396	\$ 23,349	\$ 26,360	\$ 26,066	\$ 48,756	\$ 49,415

The City’s combined net position decreased by approximately 1.3 percent from a year ago - decreasing from \$49,414,862 to \$48,757,237. The net position of the governmental activities decreased and business-type activities slightly increased during the year. This measurement is one of the goals of full-accrual financial statement presentation.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased by 6.5 percent for the governmental activities. The current level of unrestricted net position related to governmental activities is \$1,315,859.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

June 30, 2017

The following table shows the changes of the net position during the years ended June 30, 2017 and 2016 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Net Position - Beginning of year	\$ 23,349	\$ 24,441	\$ 26,066	\$ 26,302	\$ 49,415	\$ 50,743
Revenue						
Program revenue:						
Charges for services	466	803	3,076	2,811	3,542	3,614
Operating grants and contributions	760	943	-	-	760	943
Capital grants and contributions	98	33	217	187	315	220
General revenue:						
Property taxes	3,801	3,809	1,084	824	4,885	4,633
State-shared revenue	1,134	900	-	-	1,134	900
Interest	14	11	14	11	28	22
Cable franchise fees	154	-	-	-	154	-
Gain on sale of capital assets	38	-	-	-	38	-
Transfers and other revenue	232	2	-	-	232	2
Total revenue	6,697	6,501	4,391	3,833	11,088	10,334
Program Expenses						
General government	1,418	1,422	-	-	1,418	1,422
Public safety	3,336	3,137	-	-	3,336	3,137
Public works	2,445	2,476	-	-	2,445	2,476
Community and economic development	162	249	-	-	162	249
Cultural and recreation	271	284	-	-	271	284
Interest on long-term debt	18	25	-	-	18	25
Water and sewer	-	-	4,097	4,069	4,097	4,069
Total program expenses	7,650	7,593	4,097	4,069	11,747	11,662
Change in Net Position	(953)	(1,092)	294	(236)	(659)	(1,328)
Net Position - End of year	<u>\$ 22,396</u>	<u>\$ 23,349</u>	<u>\$ 26,360</u>	<u>\$ 26,066</u>	<u>\$ 48,756</u>	<u>\$ 49,415</u>

Governmental Activities

The City's total governmental expenses remained relatively consistent, increasing by approximately \$57,000. The City has been closely monitoring expenses, seeking to reduce them when possible.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides water distribution and sewage treatment to residents from the City-owned water supply and treatment facility. Expenses increased approximately \$28,000, due in part to increased repair and maintenance costs in the current year.

The City of South Lyon's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The South Lyon City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as major and local road

Management's Discussion and Analysis (Continued)

June 30, 2017

maintenance and debt service. The City's major funds for 2017 include the General Fund and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$2,516,000 in 2017. Other government services accounted for in the General Fund include general government, the department of public works, the fire department, and recreation.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to account for changes made necessary due to unanticipated events or situations requiring increased expenditures for operational and capital expenditures. While the original budget of the General Fund projected an approximate \$406,000 decrease in fund balance, the amended budget projected an approximate \$456,000 use of fund balance. The actual use of fund balance was approximately \$177,000.

Total General Fund revenue was \$269,000 more than the amended budget primarily due to more State shared revenue and licenses and permits than expected. General Fund expenditures were \$9,000 less than the amended budget. Public works expenditures, in particular, were \$79,000 under budget due to lower-than-anticipated employee expenditures.

Capital Asset and Debt Administration

At the end of 2017, the City had approximately \$48 million (after depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested in roads within the City. Outstanding debt of the governmental and business-type activities totaled approximately \$11.4 million as of June 30, 2017. For additional information related to capital assets and debt, please see Notes 4 and 6, respectively.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year takes into consideration many factors anticipated to impact the budget. Among them are relatively flat property taxes, as taxable value (in both the housing and commercial markets) is projected to increase only slightly, and a decline in water and sewer sales. However, given our healthy fund balance, we do not anticipate any reductions in service levels based on potential revenue reductions. Over the years, the City has had the flexibility to adjust various ad valorem tax rates as necessary and as determined by Headlee, Truth in Taxation, and Proposal A. The statewide tax reform acts limit growth in taxable value to inflation or 5 percent, whichever is less. Inflation rates in recent years have only been in the range of 1.5 percent to 4.4 percent.

Contacting the City's Management

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

City of South Lyon, Michigan

Statement of Net Position

June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents (Note 3)	\$ 7,213,997	\$ 4,166,556	\$ 11,380,553	\$ 53,854
Receivables:				
Customer receivables	77,596	915,863	993,459	-
Due from other governmental units	492,440	-	492,440	-
Due from component unit	-	631	631	-
Internal balances	1,048	(1,048)	-	-
Prepaid expenses	135,767	28,397	164,164	-
Restricted assets (Note 1)	-	4,465,721	4,465,721	-
Investment in joint venture (Note 8)	408,584	-	408,584	-
Land held for resale	53,000	-	53,000	-
Capital assets: (Note 4)				
Assets not subject to depreciation	3,217,183	178,415	3,395,598	-
Assets subject to depreciation	15,701,045	28,864,175	44,565,220	-
Total assets	27,300,660	38,618,710	65,919,370	53,854
Deferred Outflows of Resources - Deferred pension costs (Note 11)	847,647	186,283	1,033,930	-
Liabilities				
Accounts payable	128,169	59,504	187,673	308
Due to other governmental units	1,414	-	1,414	-
Due to primary government	-	-	-	631
Cash bonds and deposits	154,545	-	154,545	-
Accrued liabilities and other	172,649	112,665	285,314	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 6)	163,200	55,200	218,400	-
Current portion of long-term debt (Note 6)	125,000	990,000	1,115,000	-
Due in more than one year:				
Compensated absences (Note 6)	163,290	55,155	218,445	-
Net pension liability (Note 11)	4,207,550	924,669	5,132,219	-
Net OPEB obligation (Note 10)	375,300	96,951	472,251	-
Long-term debt (Note 6)	135,000	10,122,379	10,257,379	-
Total liabilities	5,626,117	12,416,523	18,042,640	939
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 11)	125,781	27,642	153,423	-
Net Position				
Net investment in capital assets	18,658,228	17,930,211	36,588,439	-
Restricted:				
Road improvements	1,777,766	-	1,777,766	-
Law enforcement	46,456	-	46,456	-
Cemetery	710,123	-	710,123	-
Parks and recreation capital improvements	25,000	-	25,000	-
Water and sewer replacement	-	4,465,721	4,465,721	-
Unrestricted	1,178,836	3,964,896	5,143,732	52,915
Total net position	<u>\$ 22,396,409</u>	<u>\$ 26,360,828</u>	<u>\$ 48,757,237</u>	<u>\$ 52,915</u>

City of South Lyon, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,417,522	\$ 432,746	\$ -	\$ -
Public safety - Police, fire, and EMS	3,335,896	32,969	1,705	7,363
Community maintenance and development	2,444,337	-	734,755	56,970
Community and economic development	162,162	-	21,074	34,135
Recreation and culture	270,665	-	2,183	-
Interest on long-term debt	18,325	-	-	-
Total governmental activities	<u>7,648,907</u>	<u>465,715</u>	<u>759,717</u>	<u>98,468</u>
Business-type activities - Water and sewer	4,096,636	3,076,063	-	217,030
Total primary government	<u>\$ 11,745,543</u>	<u>\$ 3,541,778</u>	<u>\$ 759,717</u>	<u>\$ 315,498</u>
Component units - Downtown Development Authority	<u>\$ 56,250</u>	<u>\$ -</u>	<u>\$ 9,519</u>	<u>\$ -</u>

General revenue:
 Property taxes
 Unrestricted state-shared revenue
 Unrestricted investment income
 Cable franchise fees
 Gain on sale of capital assets
 Income from joint venture (not directly allocated)
 Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities

Year Ended June 30, 2017

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Downtown Development Authority
Governmental Activities	Business Type Activities	Total	
\$ (984,776)	\$ -	\$ (984,776)	\$ -
(3,293,859)	-	(3,293,859)	-
(1,652,612)	-	(1,652,612)	-
(106,953)	-	(106,953)	-
(268,482)	-	(268,482)	-
(18,325)	-	(18,325)	-
(6,325,007)	-	(6,325,007)	-
-	(803,543)	(803,543)	-
(6,325,007)	(803,543)	(7,128,550)	-
-	-	-	(46,731)
3,800,669	1,084,099	4,884,768	26,177
1,133,641	-	1,133,641	-
14,232	14,135	28,367	247
154,381	-	154,381	-
38,298	-	38,298	-
71,601	-	71,601	-
159,869	-	159,869	-
5,372,691	1,098,234	6,470,925	26,424
(952,316)	294,691	(657,625)	(20,307)
23,348,725	26,066,137	49,414,862	73,222
\$ 22,396,409	\$ 26,360,828	\$ 48,757,237	\$ 52,915

City of South Lyon, Michigan

Governmental Funds Balance Sheet

June 30, 2017

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 2,708,539	\$ 4,505,458	\$ 7,213,997
Receivables:			
Customer receivables	77,596	-	77,596
Due from other governmental units	334,343	158,097	492,440
Due from other funds (Note 5)	22,122	-	22,122
Prepaid expenses	130,391	5,376	135,767
Land held for resale	-	53,000	53,000
	<u>\$ 3,272,991</u>	<u>\$ 4,721,931</u>	<u>\$ 7,994,922</u>
Total assets			
Liabilities			
Accounts payable	\$ 126,569	\$ 1,600	\$ 128,169
Due to other governmental units	1,096	318	1,414
Due to other funds	-	21,074	21,074
Cash bonds and deposits	154,545	-	154,545
Accrued liabilities and other	166,767	3,753	170,520
	<u>448,977</u>	<u>26,745</u>	<u>475,722</u>
Total liabilities			
Deferred Inflows of Resources - Unavailable revenue	159,539	158,097	317,636
Fund Balance			
Nonspendable:			
Land held for resale	-	53,000	53,000
Prepays	130,391	5,376	135,767
Restricted:			
Roads	-	1,635,367	1,635,367
Police	-	46,456	46,456
Cemetery perpetual care	-	710,123	710,123
Parks and recreation capital improvements	25,000	-	25,000
Committed:			
Capital improvements	-	1,631,001	1,631,001
Land acquisition	-	94,457	94,457
Equipment replacement	-	350,564	350,564
Assigned - Debt	-	31,819	31,819
Unassigned	2,509,084	(21,074)	2,488,010
	<u>2,664,475</u>	<u>4,537,089</u>	<u>7,201,564</u>
Total fund balance			
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 3,272,991</u>	<u>\$ 4,721,931</u>	<u>\$ 7,994,922</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2017

Fund Balance Reported in Governmental Funds	\$ 7,201,564
Amounts reported for governmental activities in the statement of net position are difference because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	18,918,228
Receivables that are not collected soon after year end are not available to pay for current period expenditures, and therefore are reported as unavailable revenue in the funds.	317,636
Investments in joint ventures are not financial resources and are not reported in the funds	408,584
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(260,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(2,129)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(326,490)
Pension benefits	(3,485,684)
Retiree healthcare benefits	(375,300)
Net Position of Governmental Activities	\$ 22,396,409

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2017

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 3,511,582	\$ 289,087	\$ 3,800,669
Intergovernmental:			
State and local sources:			
State-shared revenue	957,600	-	957,600
Act 51 gas and weight tax	-	575,789	575,789
Local Community Stabilization Authority	139,398	29,978	169,376
Local grants and contributions	11,251	91,105	102,356
Charges for services	85,653	132,815	218,468
Fines and forfeitures	32,969	-	32,969
Licenses and permits	442,780	-	442,780
Investment income and other	5,933	79,792	85,725
Other revenue	169,013	-	169,013
	5,356,179	1,198,566	6,554,745
Expenditures			
Current services:			
General government	1,382,955	-	1,382,955
Public safety	3,033,592	-	3,033,592
Community maintenance and development	908,296	476,836	1,385,132
Community and economic development	-	25,298	25,298
Recreation and culture	247,085	-	247,085
Capital outlay	-	76,513	76,513
Debt service	-	139,305	139,305
	5,571,928	717,952	6,289,880
Net Change in Fund Balance	(215,749)	480,614	264,865
Other Financing Sources - Sale of capital assets	38,298	-	38,298
Net Change in Fund Balance	(177,451)	480,614	303,163
Fund Balance - Beginning of year	2,841,926	4,056,475	6,898,401
Fund Balance - End of year	\$ 2,664,475	\$ 4,537,089	\$ 7,201,564

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balance to the Statement of Activities**

Year Ended June 30, 2017

Net Change in Fund Balance Reported in Governmental Funds	\$	303,163
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay		272,623
Depreciation expense		(1,450,224)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available		164,762
Change in investment in joint venture is not recorded in the governmental funds, but is recorded in the statement of activities		71,601
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		120,000
Interest expense is recognized in the government-wide statements as it accrues		980
Some employee costs (pension, OPEB, compensated absences) do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		<u>(435,221)</u>
Change in Net Position of Governmental Activities	\$	<u>(952,316)</u>

City of South Lyon, Michigan

Proprietary Fund - Water and Sewer Fund Statement of Net Position

June 30, 2017

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 4,166,556
Receivables - Customer receivables	915,863
Due from component unit (Note 5)	631
Prepaid expenses	28,397
Total current assets	5,111,447

Noncurrent assets:

Restricted assets (Note 1)	4,465,721
Capital assets (Note 4)	29,042,590
Total noncurrent assets	33,508,311
Total assets	38,619,758

Deferred Outflows of Resources - Deferred pension costs (Note 11) 186,283

Liabilities

Current liabilities:

Accounts payable	59,504
Due to other funds (Note 5)	1,048
Accrued liabilities and other	112,665
Compensated absences (Note 6)	55,200
Current portion of long-term debt (Note 6)	990,000
Total current liabilities	1,218,417

Noncurrent liabilities:

Compensated absences (Note 6)	55,155
Net pension liability (Note 11)	924,669
Net OPEB obligation (Note 10)	96,951
Long-term debt (Note 6)	10,122,379
Total noncurrent liabilities	11,199,154

Total liabilities 12,417,571

Deferred Inflows of Resources - Pensions (Note 11) 27,642

Net Position

Net investment in capital assets	17,930,211
Restricted - Water and sewer replacement	4,465,721
Unrestricted	3,964,896
Total net position	<u>\$ 26,360,828</u>

City of South Lyon, Michigan

Proprietary Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2017

Operating Revenue	
Sale of water	\$ 1,248,159
Sewage disposal charges	1,176,374
Refuse collection	504,059
Billing and collection charges	86,089
Hydrant rental	2,500
Installation fees	34,905
Other income	23,977
	<hr/>
Total operating revenue	3,076,063
Operating Expenses	
Salaries and wages	621,925
Fringe benefits	416,735
Equipment repair and maintenance	240,052
Public utilities	324,786
Refuse collection	503,350
Other services and charges	40,007
Supplies	179,645
Insurance	27,491
Other	13,017
Depreciation	1,441,407
	<hr/>
Total operating expenses	3,808,415
	<hr/>
Operating Loss	(732,352)
Nonoperating Revenue (Expense)	
Property tax revenue	1,084,099
Investment income	14,135
Interest expense	(288,221)
	<hr/>
Total nonoperating revenue	810,013
	<hr/>
Income - Before capital contributions	77,661
Capital Contributions - Tap-in fees	217,030
	<hr/>
Change in Net Position	294,691
Net Position - Beginning of year	26,066,137
	<hr/>
Net Position - End of year	<u><u>\$ 26,360,828</u></u>

City of South Lyon, Michigan

Proprietary Fund - Water and Sewer Fund Statement of Cash Flows

Year Ended June 30, 2017

Cash Flows from Operating Activities

Receipts from customers	\$ 2,993,889
Payments for interfund services and reimbursements	(60,598)
Payments to suppliers	(1,366,872)
Payments to employees and fringes	(961,635)
Other receipts (payments)	<u>2,982</u>

Net cash and cash equivalents provided by operating activities 607,766

Cash Flows from Capital and Related Financing Activities

Collection of tap-in fees	217,030
Property taxes revenue received	1,084,099
Purchase of capital assets	(707,286)
Principal and interest paid on capital debt	<u>(1,261,309)</u>

Net cash and cash equivalents used in capital and related financing activities (667,466)

Cash Flows Provided by Investing Activities - Interest received on investments 14,135

Net Decrease in Cash and Cash Equivalents (45,565)

Cash and Cash Equivalents - Beginning of year 8,677,842

Cash and Cash Equivalents - End of year \$ 8,632,277

Classification of Cash and Cash Equivalents

Cash and investments	\$ 4,166,556
Restricted cash	<u>4,465,721</u>

Total cash and cash equivalents \$ 8,632,277

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (732,352)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	1,441,407
Changes in assets and liabilities:	
Receivables	(79,192)
Due to and from other funds	(60,598)
Prepaid and other assets	(8,720)
Net pension or OPEB liability	15,837
Accounts payable	(29,804)
Net pension or OPEB liability	(68,563)
Deferrals related to pension or OPEB	<u>129,751</u>

Total adjustments 1,340,118

Net cash and cash equivalents provided by operating activities \$ 607,766

Note 1 - Significant Accounting Policies

Reporting Entity

The City of South Lyon, Michigan (the "City") is governed by an elected seven-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The blended component unit is, in substance, part of the City's operations, even though it is a separate legal entity. Thus, the blended component unit is appropriately presented as a fund of the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units

The South Lyon Building Authority (the "Building Authority") is governed by a board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to acquire and lease property to the City.

Discretely Presented Component Units

Downtown Development Authority

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the city manager and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report.

Accounting and Reporting Principles

The City of South Lyon, Michigan follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board. The following is a summary of the significant accounting policies used by the City:

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

June 30, 2017 and 2016

Note 1 - Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting

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

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds. The City only reports the General Fund as a “major” governmental fund. The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The City reports only the Water and Sewer Fund as a “major” enterprise funds. The Water and Sewer Fund provides water to customers and disposes of sanitary sewage in exchange for user charges.

Interfund Activity

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

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

Basis of Accounting

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

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

Note 1 - Significant Accounting Policies (Continued)

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

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

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Restricted assets consist of cash and cash equivalents held for water and wastewater system improvements and equipment replacement. Included in this amount is a portion of water and sewer tap-in fees required by local ordinance to be restricted for improvements.

Capital Assets

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

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

	Depreciable Life - Years
Wastewater treatment plant and equipment	10 to 40
Water treatment plant and equipment	10 to 40
Utility system, buildings, and improvements	7 to 40
Roads and sidewalks	20 to 25
Other tools, furniture, and equipment	15 to 40
Tools, furniture, and equipment	5 to 15
Office furnishings	5 to 7
Other tools and equipment	3 to 7

Note 1 - Significant Accounting Policies (Continued)

Long-term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond issuance costs are expensed at the time they are incurred. The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide statements and proprietary funds report deferred outflows from the difference between projected and actual investment earnings of the pension plan, as well as city contributions made after the measurement date of the net pension liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The government-wide statements and proprietary funds report deferred inflows from the difference between projected and actual experience of the pension plan. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. The General Fund, Major and Local Road Funds, and the CDBG Fund report unavailable revenue from certain state-shared revenue, certain state gas and weight tax revenue, and federal reimbursements, respectively. These amounts are deferred and recognized as an inflow of resources in the period that the amounts becomes available.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Note 1 - Significant Accounting Policies (Continued)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the city manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. Taxes are due on September 30 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

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

The 2016 taxable valuation of the City totaled \$329 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 11.2500 mills for operating purposes and 3.3000 mills for debt service. This resulted in \$3.7 million for operating and \$1.1 million for debt service. These amounts are recognized in the respective general, capital projects, debt service, and enterprise fund financial statements as tax revenue.

Pension

The City offers pension benefits to retirees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For 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 pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs

The City offers a monthly healthcare stipend to qualified retirees. The City computes the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. In the governmental funds, pension and OPEB costs are recognized as contributions and payments are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay and vacation pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. Generally, the funds that report each employee's compensation (the General Fund, Major and Local Roads Funds, and Water and Sewer Fund, primarily) are used to liquidate the obligations.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system, property taxes, and investment income. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

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

Upcoming Accounting Pronouncements

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

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2020.

June 30, 2017 and 2016

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General government	\$ 1,292,455	\$ 1,382,955
Fire	506,383	516,800
Cemetery	110,777	111,564
Parks and recreation	140,775	148,994
Total	\$ 2,050,390	\$ 2,160,313

General government was over budget due to higher-than-expected building inspections. Fire was over budget due to higher-than-expected equipment repairs and IT expenditures. Cemetery was over budget due to higher salaries and fringe benefits due to an increase in activity. Parks and recreation was over budget due to higher-than-expected capital expenditures.

Construction Code Fees

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

Surplus (shortfall) at July 1, 2016		\$ (1,191,075)
Current year permit revenue		282,242
Related expenses:		
Direct costs	\$ 267,311	
Estimated indirect costs	10,702	278,013
Current year surplus (shortfall)		4,229
Cumulative surplus (shortfall) at June 30, 2017		\$ (1,186,846)

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the State of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs and such obligations, bonds, and securities as permitted by the statutes of the State of Michigan.

June 30, 2017 and 2016

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$15,056,000 of bank deposits (checking and savings accounts) that was uninsured and uncollateralized. The component unit did not have any bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

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

Governmental Activities

	Balance July 1, 2016	Additions	Disposals and Adjustments	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 3,207,804	\$ -	\$ -	\$ 3,207,804
Construction in progress	7,870	3,535	(2,026)	9,379
Subtotal	3,215,674	3,535	(2,026)	3,217,183
Capital assets being depreciated:				
Roads and sidewalks	23,718,756	22,173	-	23,740,929
Buildings and improvements	9,144,552	103,160	2,026	9,249,738
Other tools, furniture, and equipment	5,510,998	143,755	(243,447)	5,411,306
Subtotal	38,374,306	269,088	(241,421)	38,401,973
Accumulated depreciation:				
Roads and sidewalks	13,236,707	884,160	-	14,120,867
Buildings and improvements	4,052,189	298,092	-	4,350,281
Other tools, furniture, and equipment	4,205,255	267,972	(243,447)	4,229,780
Subtotal	21,494,151	1,450,224	(243,447)	22,700,928
Net capital assets being depreciated	16,880,155	(1,181,136)	2,026	15,701,045
Net capital assets	<u>\$ 20,095,829</u>	<u>\$ (1,177,601)</u>	<u>\$ -</u>	<u>\$ 18,918,228</u>

June 30, 2017 and 2016

Note 4 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2016	Additions	Disposals and Adjustments	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 147,317	\$ -	\$ -	\$ 147,317
Construction in progress	31,098	-	-	31,098
Subtotal	178,415	-	-	178,415
Capital assets being depreciated:				
Wastewater treatment plant and equipment	33,604,815	52,025	-	33,656,840
Water treatment plant and equipment	3,037,897	16,095	-	3,053,992
Utility systems, buildings, and improvements	17,040,427	568,331	-	17,608,758
Other tools, furniture, and equipment	1,273,774	70,835	-	1,344,609
Subtotal	54,956,913	707,286	-	55,664,199
Accumulated depreciation - Total water and sewer	25,358,617	1,441,407	-	26,800,024
Net capital assets being depreciated	29,598,296	(734,121)	-	28,864,175
Net capital assets	<u>\$ 29,776,711</u>	<u>\$ (734,121)</u>	<u>\$ -</u>	<u>\$ 29,042,590</u>

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

Governmental activities:	
General government	\$ 120,740
Public safety	168,574
Public works	1,107,021
Recreation and culture	53,889
Total governmental activities	<u>\$ 1,450,224</u>
Business-type activities - Water and sewer	\$ 1,441,407

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	2017
General Fund	Water and Sewer Fund	\$ 1,048
	Nonmajor governmental funds	21,074
	Total General Fund	<u>\$ 22,122</u>

The balance of amounts loaned to discretely presented component units is as follows:

Receivable	Payable	2017
Water and Sewer Fund	Downtown Development Authority	\$ 631

June 30, 2017 and 2016

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

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 6 - Long-term Debt

Long-term debt activity for the year ended June 30, 2017 can be summarized as follows:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds and contracts payable -					
General obligations	\$ 380,000	\$ -	\$ (120,000)	\$ 260,000	\$ 125,000
Accumulated compensated absences	336,525	152,651	(162,686)	326,490	163,200
Total governmental activities long-term debt	<u>\$ 716,525</u>	<u>\$ 152,651</u>	<u>\$ (282,686)</u>	<u>\$ 586,490</u>	<u>\$ 288,200</u>

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Bonds and contracts payable:					
General obligations	\$ 9,642,379	\$ -	\$ (860,000)	\$ 8,782,379	\$ 880,000
Revenue bonds	2,440,000	-	(110,000)	2,330,000	110,000
Total bonds payable	12,082,379	-	(970,000)	11,112,379	990,000
Accumulated compensated absences	122,362	34,451	(46,458)	110,355	55,200
Total business-type activities long-term debt	<u>\$ 12,204,741</u>	<u>\$ 34,451</u>	<u>\$ (1,016,458)</u>	<u>\$ 11,222,734</u>	<u>\$ 1,045,200</u>

General Obligation Bonds and Contracts

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. General obligations outstanding at June 30, 2017 are as follows:

Purpose	Year Issued	Interest Rates	Maturing	Outstanding
Governmental Activities				
Building Authority Bonds	1999	5.2	2019	\$ 195,000
Building Authority Bonds	2005	4-4.1	2019	65,000
Total governmental activities				<u>\$ 260,000</u>
Business-type Activities				
State of Michigan Revolving Fund	2003	2.5	2025	\$ 8,782,379

June 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

Revenue Bonds

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Business-type activities utilize revenue bonds to finance the water and sewer system. During fiscal year 2013, the City issued revenue bonds in the amount of \$5,300,000. These bonds are funded by the Drinking Water Revolving Fund and the City received a loan forgiveness to the extent of \$2,650,000. The City has pledged substantially all revenue generated through the water and sewer system, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water and sewer mains. The bonds are payable solely from the net revenue of the water and sewer system. As of June 30, 2017, the remaining principal and interest to be paid on the revenue bonds total \$2,889,125. During the current year, operating income of the system (excluding depreciation) was \$708,849.

Purpose	Year Issued	Interest Rates	Maturing	Outstanding
Business-type Activities				
Drinking Water Revolving Fund Program #7314-01	2013	2.5	2034	\$ 2,330,000

Debt Service Requirements to Maturity

Total interest expense for the year related to governmental activities for the year was approximately \$20,000. Total interest incurred related to business-type activities for the year approximated \$288,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 125,000	\$ 12,775	\$ 137,775	\$ 990,000	\$ 266,809	\$ 1,256,809
2019	135,000	6,635	141,635	1,020,000	241,747	1,261,747
2020	-	-	-	1,040,000	215,397	1,255,397
2021	-	-	-	1,070,000	189,078	1,259,078
2022	-	-	-	1,100,000	162,616	1,262,616
2023-2027	-	-	-	4,812,379	396,146	5,208,525
2028-2032	-	-	-	755,000	98,250	853,250
2033-2034	-	-	-	325,000	12,250	337,250
Total	\$ 260,000	\$ 19,410	\$ 279,410	\$ 11,112,379	\$ 1,582,293	\$ 12,694,672

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) as well as medical benefits provided to employees. The City has purchased commercial insurance for workers' compensation, medical, health, life, and disability claims, and participates in the Michigan Municipal Risk Management Authority's state pool for claims relating to general law enforcement, emergency medical, public errors and omissions, and auto liabilities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program (the "Authority") operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 8 - Joint Ventures

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC) and the South Lyon Area Recreation Authority (SLARA). RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom; the Village of Milford; and the Charter Township of Milford. SLARA is incorporated by the City of South Lyon, Michigan and the Charter Townships of Lyon and Green Oak. The City appoints one member to each of the joint ventures' governing boards, which then approve the annual budgets. The joint ventures receive their operating revenue from member contributions and miscellaneous income.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for RRRASOC can be obtained from RRRASOC's office at 20000 West 8 Mile Road, Southfield, Michigan 48075 and for SLARA at SLARA's office at 318 W. Lake Street, South Lyon, Michigan 48178.

During the year, the City contributed \$17,755 to RRRASOC and \$28,258 to SLARA. The City reported equity interest in SLARA of \$408,584 as of June 30, 2017.

Note 9 - Capital Improvement Fund Expenditures

The expenditures of the Capital Improvement Fund (excluding administrative expenses) are as follows:

Construction - McHattie Park	\$	46,739
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Note 10 - Other Postemployment Benefits

Plan Description

The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with labor contracts. The City provides a monthly stipend up to age 65 to be used to supplement the insurance costs for postemployment healthcare benefits. Currently, five retirees are eligible and received benefits during the year. The City provides a monthly stipend to be used to supplement the insurance cost for postemployment healthcare benefits.

Funding Policy

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

June 30, 2017 and 2016

Note 10 - Other Postemployment Benefits (Continued)

Funding Progress

For the year ended June 30, 2017, the City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the retiree health plan:

Annual required contribution (recommended)	\$ 100,714
Interest on the prior year's net OPEB obligation	12,243
Less adjustment to the annual required contribution	<u>(24,819)</u>
Annual OPEB cost	88,138
Amounts contributed	<u>(24,000)</u>
Increase in net OPEB obligation	64,138
OPEB obligation - Beginning of year	<u>408,113</u>
OPEB obligation - End of year	<u><u>\$ 472,251</u></u>

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Employer Contributions Percentage of ARC Contributed	Net OPEB Obligation
June 30, 2015	June 30, 2014	\$ 69,588	45.60 %	\$ 384,699
June 30, 2016	June 30, 2014	69,588	50.30	408,113
June 30, 2017	June 30, 2017	100,714	23.83	472,251

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
June 30, 2013	\$ -	\$ 776,403	\$ 776,403	- %
June 30, 2014	-	785,905	785,905	-
June 30, 2017	-	988,975	988,975	-

Actuarial Methods and Assumptions

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

June 30, 2017 and 2016

Note 10 - Other Postemployment Benefits (Continued)

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

In the June 30, 2017 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017 was 22 years.

The following simplifying assumptions were made:

Retirement age - Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 55 for police members and 59 for all other members.

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

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

No assumptions have been made related to an overall inflation rate or payroll growth rate as these have no impact on future payments. Changes in healthcare rates are assumed to be zero as the monthly stipends are at a fixed amount.

Note 11 - Pension Plan

Plan Description

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

Benefits Provided

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

The MERS plan covers full-time employees at the City, including AFSCME, nonunion, police, patrolmen, police command, and clerical employees.

Note 11 - Pension Plan (Continued)

Retirement benefits are calculated as 2.5 percent of the employee's final five-year average compensation times the employee's years of service, with a maximum of 80 percent of final average compensation. Normal retirement age is 60 with early retirement at an unreduced benefit at age 55 with 25 years of service or a reduced benefit at age 50 with 25 years of service or age 55 with 15 years of service. Deferred retirement benefits vest after 10 years of credited service (eight years for nonunion employees), but are not paid until the date retirement would have occurred had the member remained an employee. Employees are eligible for nonduty disability benefits after 10 years of service (eight years for nonunion employees) and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately and if duty-related without the application of an actuarial reduction for retirement before age 60. An employee who leaves city service may withdraw his or her contributions, plus any accumulated interest.

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

Employees Covered by Benefit Terms

At the December 31, 2016 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	26
Inactive plan members entitled to but not yet receiving benefits	9
Active plan members	43
Total employees covered by the plan	78

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. MERS hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's required contribution is determined after consideration of the required contribution rate of employees. For the year ended June 30, 2017, the average active employee contribution rate was 1.10 percent of annual pay and the City's average contribution rate was 17.94 percent of annual payroll for the various employee groups.

Net Pension Liability

The City has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The June 30, 2017 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2016 measurement date. The December 31, 2016 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

June 30, 2017 and 2016

Note 11 - Pension Plan (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 14,412,151	\$ 9,076,648	\$ 5,335,503
Changes for the year:			
Service cost	283,687	-	283,687
Interest	1,141,285	-	1,141,285
Changes in benefits	(270)	-	(270)
Differences between expected and actual experience	(113,562)	-	(113,562)
Contributions - Employer	-	470,446	(470,446)
Contributions - Employee	-	29,301	(29,301)
Net investment income	-	1,035,110	(1,035,110)
Benefit payments, including refunds	(575,867)	(575,867)	-
Administrative expenses	-	(20,433)	20,433
Net changes	735,273	938,557	(203,284)
Balance at December 31, 2016	\$ 15,147,424	\$ 10,015,205	\$ 5,132,219

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

For the year ended June 30, 2017, the City recognized pension expense of \$943,822. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 153,423
Changes in assumptions	424,465	-
Net difference between projected and actual earnings on pension plan investments	361,080	-
Employer contributions to the plan subsequent to the measurement date	248,385	-
Total	\$ 1,033,930	\$ 153,423

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and therefore will not be included in future pension expense):

Years Ending June 30	Amount
2018	\$ 250,257
2019	250,257
2020	216,888
2021	(85,280)

Note 11 - Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using an inflation assumption of 2.50 percent; assumed salary increases (including inflation) of 3.75 percent; an investment rate of return (net of investment expenses) of 8.0 percent; and using the RP-2014 mortality tables. These assumptions were applied to all periods included in the measurement and are based on an experience study conducted for the period from 2009-2013.

The total pension liability in the previous actuarial valuations was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.50%
Salary increases (including inflation)	3.75%
Investment rate of return (net of investment and administrative expenses)	7.75%
Mortality rates	RP-2014 Mortality Table

Discount Rate

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

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

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of the December 31, 2016 measurement date for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	57.50 %	5.02 %
Global fixed income	20.00	2.18
Real assets	12.50	4.23
Diversifying strategies	10.00	6.56

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

Note 11 - Pension Plan (Continued)

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

The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the City	\$ 7,023,449	\$ 5,132,219	\$ 3,531,976

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at www.mersofmich.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 12 - Tax Abatements

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50 percent of the property tax bill for new property (or it can freeze taxable values for rehabilitation properties) for up to 12 years.

For the fiscal year ended June 30, 2017 the City abated \$12,646 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

There are no significant abatements made by other governments that reduce the City's tax revenue.

Required Supplemental Information

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 3,514,029	\$ 3,514,029	\$ 3,511,582	\$ (2,447)
Intergovernmental	946,168	955,556	1,108,249	152,693
Charges for services	95,000	95,000	85,653	(9,347)
Fines and forfeitures	32,500	32,500	32,969	469
Licenses and permits	300,000	300,000	442,780	142,780
Investment income and other	7,000	7,000	5,933	(1,067)
Other revenue	172,900	182,900	169,013	(13,887)
Total revenue	5,067,597	5,086,985	5,356,179	269,194
Expenditures				
Current services:				
General government	1,272,460	1,292,455	1,382,955	(90,500)
Public safety:				
Police	2,542,278	2,542,168	2,515,699	26,469
Fire	464,750	506,383	516,800	(10,417)
Ambulance	2,075	2,075	1,093	982
Community maintenance and development:				
Public works	877,203	875,703	796,732	78,971
Cemetery	101,325	110,777	111,564	(787)
Recreation and culture:				
Parks and recreation	140,775	140,775	148,994	(8,219)
Cable	2,225	2,225	1,174	1,051
Historical	30,175	30,175	25,300	4,875
Cultural arts	4,675	4,675	3,857	818
Public transportation	73,920	73,920	67,760	6,160
Total expenditures	5,511,861	5,581,331	5,571,928	9,403
Excess of Expenditures Over Revenue	(444,264)	(494,346)	(215,749)	278,597
Other Financing Sources - Sale of capital assets	38,298	38,683	38,298	(385)
Net Change in Fund Balance	(405,966)	(455,663)	(177,451)	278,212
Fund Balance - Beginning of year	2,841,926	2,841,926	2,841,926	-
Fund Balance - End of year	\$ 2,435,960	\$ 2,386,263	\$ 2,664,475	\$ 278,212

June 30, 2017

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds.

The annual budget is prepared by the city manager and submitted to the City Council at its meeting nearest the third Monday in April of each year. The budget is adopted by the City Council no later than the second regular City Council meeting in May. Subsequent amendments are approved by the City Council. Amendments may be made by the City Council up until the last day of the fiscal year. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2017 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund is presented as required supplemental information. Information comparing other special revenue funds activity to the respective budgets can be obtained at City Hall.

**Required Supplemental Information
Schedule of OPEB Funding Progress**

Year Ended June 30

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
June 30, 2017	\$ -	\$ 988,975	\$ 988,975	-
June 30, 2014	-	785,905	785,905	-
June 30, 2013	-	776,403	776,403	-

City of South Lyon, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios

Last Three Fiscal Years (schedule is built prospectively upon implementation of GASB 68)

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 283,687	\$ 256,313	\$ 255,907
Interest	1,141,285	1,064,707	1,004,596
Changes in benefit terms	(270)	-	-
Differences between expected and actual experience	(113,562)	(104,289)	-
Changes in assumptions	-	707,441	-
Benefit payments, including refunds	(575,867)	(578,810)	(485,354)
Net Change in Total Pension Liability	735,273	1,345,362	775,149
Total Pension Liability - Beginning of year	14,412,151	13,066,789	12,291,640
Total Pension Liability - End of year	\$ 15,147,424	\$ 14,412,151	\$ 13,066,789
Plan Fiduciary Net Position			
Contributions - Employer	\$ 470,446	\$ 420,267	\$ 417,111
Contributions - Employee	29,301	27,094	27,802
Net investment income	1,035,110	(140,969)	562,278
Administrative expenses	(20,433)	(20,522)	(20,698)
Benefit payments, including refunds	(575,867)	(578,810)	(485,354)
Net Change in Plan Fiduciary Net Position	938,557	(292,940)	501,139
Plan Fiduciary Net Position - Beginning of year	9,076,648	9,369,588	8,868,449
Plan Fiduciary Net Position - End of year	\$ 10,015,205	\$ 9,076,648	\$ 9,369,588
City's Net Pension Liability - Ending	\$ 5,132,219	\$ 5,335,503	\$ 3,697,201
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.12 %	62.98 %	71.71 %
Covered Employee Payroll	\$ 2,725,500	\$ 2,533,242	\$ 2,528,331
City's Net Pension Liability as a Percentage of Covered Employee Payroll	188.30 %	210.62 %	146.23 %

City of South Lyon, Michigan

Required Supplemental Information Schedule of Pension Contributions

	Last Ten Fiscal Years									
	Year Ended June 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 470,446	\$ 420,267	\$ 417,111	\$ 405,981	\$ 386,618	\$ 388,304	\$ 372,715	\$ 358,241	\$ 365,051	\$ 329,222
Contributions in relation to the actuarially determined contribution	470,446	420,267	417,111	405,981	386,618	388,304	372,715	358,241	365,051	329,222
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$2,725,500	\$2,533,242	\$2,528,331	\$2,472,858	\$2,673,263	\$2,666,459	\$2,713,288	\$2,868,101	\$2,836,045	\$2,719,636
Contributions as a Percentage of Covered Employee Payroll	17.26 %	16.59 %	16.50 %	16.42 %	14.46 %	14.56 %	13.74 %	12.49 %	12.87 %	12.10 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, which is 18 months prior to the beginning of the fiscal year in which the contributions are required

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	Five-year smoothed market
Inflation	3 - 4 percent
Salary increase	3.75 percent average, including inflation
Investment rate of return	7.75 percent
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50 percent male - 50 percent female blend of the 2014 Group Annuity Mortality Table
Other information	None

Other Supplemental Information

City of South Lyon, Michigan

	Special Revenue Funds				
	Major Road	Local Road	Drug Forfeiture	Cemetery Perpetual Care	Community Development Block Grant
Assets					
Cash and investments	\$ 1,428,015	\$ 212,365	\$ 46,456	\$ 710,123	\$ -
Receivables - Due from other governmental units	95,756	41,267	-	-	21,074
Prepaid expenses	3,493	1,883	-	-	-
Land held for resale	-	-	-	-	-
Total assets	\$ 1,527,264	\$ 255,515	\$ 46,456	\$ 710,123	\$ 21,074
Liabilities					
Accounts payable	\$ 630	\$ 630	\$ -	\$ -	\$ -
Due to other governmental units	-	-	-	-	-
Due to other funds	-	-	-	-	21,074
Accrued liabilities and other	1,928	1,825	-	-	-
Total liabilities	2,558	2,455	-	-	21,074
Deferred Inflows of Resources - Unavailable revenue	95,756	41,267	-	-	21,074
Total liabilities and deferred inflows of resources	98,314	43,722	-	-	42,148
Fund Balance					
Nonspendable:					
Land held for resale	-	-	-	-	-
Prepays	3,493	1,883	-	-	-
Restricted:					
Roads	1,425,457	209,910	-	-	-
Police	-	-	46,456	-	-
Cemetery perpetual care	-	-	-	710,123	-
Committed:					
Capital improvements	-	-	-	-	-
Land acquisition	-	-	-	-	-
Equipment replacement	-	-	-	-	-
Assigned - Debt	-	-	-	-	-
Unassigned	-	-	-	-	(21,074)
Total fund balance	1,428,950	211,793	46,456	710,123	(21,074)
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,527,264	\$ 255,515	\$ 46,456	\$ 710,123	\$ 21,074

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

Debt Service Fund	Capital Project Funds			Total Nonmajor Governmental Funds
Building Authority Fund	Capital Improvement	Equipment Replacement	Land Acquisition	
\$ 31,819	\$ 1,631,659	\$ 350,564	\$ 94,457	\$ 4,505,458
-	-	-	-	158,097
-	-	-	-	5,376
-	-	-	53,000	53,000
\$ 31,819	\$ 1,631,659	\$ 350,564	\$ 147,457	\$ 4,721,931
\$ -	\$ 340	\$ -	\$ -	\$ 1,600
-	318	-	-	318
-	-	-	-	21,074
-	-	-	-	3,753
-	658	-	-	26,745
-	-	-	-	158,097
-	658	-	-	184,842
-	-	-	53,000	53,000
-	-	-	-	5,376
-	-	-	-	1,635,367
-	-	-	-	46,456
-	-	-	-	710,123
-	1,631,001	-	-	1,631,001
-	-	-	94,457	94,457
-	-	350,564	-	350,564
31,819	-	-	-	31,819
-	-	-	-	(21,074)
31,819	1,631,001	350,564	147,457	4,537,089
\$ 31,819	\$ 1,631,659	\$ 350,564	\$ 147,457	\$ 4,721,931

City of South Lyon, Michigan

	Special Revenue Funds				
	Major Road	Local Road	Drug Forfeiture	Cemetery Perpetual Care	Community Development Block Grant
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:					
State and local sources:					
Act 51 gas and weight tax	403,723	172,066	-	-	-
Local Community Stabilization Authority	29,978	-	-	-	-
Local grants and contributions	-	-	-	-	-
Charges for services	-	-	-	-	-
Investment income and other	23,693	767	101	41,745	-
Total revenue	457,394	172,833	101	41,745	-
Expenditures					
Current services:					
Community maintenance and development:					
Streets	257,409	203,020	-	-	-
Stormwater drainage	6,931	6,926	-	-	-
Other professional services	-	-	-	-	-
Community and economic development	-	-	-	-	21,074
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-
Total expenditures	264,340	209,946	-	-	21,074
Excess of Revenue Over (Under) Expenditures	193,054	(37,113)	101	41,745	(21,074)
Net Change in Fund Balance	193,054	(37,113)	101	41,745	(21,074)
Fund Balance - Beginning of year	1,235,896	248,906	46,355	668,378	-
Fund Balance - End of year	\$ 1,428,950	\$ 211,793	\$ 46,456	\$ 710,123	\$ (21,074)

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Debt Service Fund	Capital Project Funds			Total Nonmajor Governmental Funds
Building Authority Fund	Capital Improvement	Equipment Replacement	Land Acquisition	
\$ 98,124	\$ 190,963	\$ -	\$ -	\$ 289,087
-	-	-	-	575,789
-	-	-	-	29,978
34,135	56,970	-	-	91,105
-	-	132,815	-	132,815
264	2,687	821	9,714	79,792
132,523	250,620	133,636	9,714	1,198,566
-	-	-	-	460,429
-	-	-	-	13,857
-	2,550	-	-	2,550
-	-	-	4,224	25,298
-	46,739	29,774	-	76,513
120,000	-	-	-	120,000
19,305	-	-	-	19,305
139,305	49,289	29,774	4,224	717,952
(6,782)	201,331	103,862	5,490	480,614
(6,782)	201,331	103,862	5,490	480,614
38,601	1,429,670	246,702	141,967	4,056,475
\$ 31,819	\$ 1,631,001	\$ 350,564	\$ 147,457	\$ 4,537,089

City of South Lyon, Michigan

Expenditures	Community Maintenance and Development					
	General	Public Safety			and Development	
		Government	Police	Fire	Ambulance	Cemetery
Salaries and wages	\$ 310,726	\$1,451,283	\$252,818	\$ -	\$ 71,428	\$ 165,045
Salaries and wages - Mechanic	-	-	-	-	-	37,598
Reimbursement of mechanic wages	-	-	-	-	-	(37,598)
Fringe benefits	166,243	643,605	27,702	-	13,763	234,218
Uniforms & Cleaning Allowance	-	18,446	16,056	-	-	6,523
Tuition reimbursement	-	-	-	-	-	-
Office supplies	5,095	3,107	4,042	-	-	1,072
Operating expenses	24,379	10,784	10,954	-	10,187	17,785
Ammunition	-	5,421	-	-	-	-
Professional Services	235,765	10,055	-	-	62	-
Contractual Services	172,096	117,103	44,532	-	1,296	15,452
Prisoner Board	-	6	-	-	-	-
Auditor	37,360	-	-	-	-	-
Planning Consultant	35,240	-	-	-	-	-
Elections	12,605	-	-	-	-	-
Computers	5,702	6,727	2,064	-	-	-
Legal Fees	149,182	39,404	-	-	-	-
Memberships & Dues	11,188	695	1,674	-	-	385
Radio Maintenance	-	565	1,536	-	-	-
Telephone	7,961	9,885	1,801	-	760	6,055
Gas & Oil	-	21,405	8,016	-	1,314	21,970
Transportation & Mileage	6,353	-	-	-	-	389
Vehicle Maintenance	-	20,840	39,379	-	-	104,230
Community Promotions	49,876	-	1,750	-	-	-
Printing	6,513	-	-	-	-	-
Publishing	16,472	-	-	-	-	-
Insurance & Bonds	52,151	23,614	22,317	75	623	13,882
Utilities	22,093	12,316	8,195	1,018	371	14,623
Street Light Expenditures	-	-	-	-	-	115,661
Repairs & Maintenance	-	359	8,122	-	1,681	12,903
Building Maintenance	1,174	3,189	18,948	-	-	9,136
NPDES Phase II Stormwater	-	-	-	-	-	7,004
Equipment Rental	-	-	-	-	3,810	10,000
Hydrant Rental	-	-	2,500	-	-	-
Education/Training	6,158	6,349	17,614	-	-	1,919
Witness fees	-	163	-	-	-	-
Miscellaneous Expense	1,900	-	-	-	-	-
Contribution-Solid Waste	17,755	-	-	-	-	-
Capital Outlay	-	24,060	-	-	-	-
Beautification	6,789	-	-	-	-	-
Land Improvements	-	-	-	-	-	33,500
Rental Properties	21,616	-	-	-	-	-
Equipment Miscellaneous	563	14,110	10,248	-	6,269	4,980
Capital Equipment	-	72,208	16,532	-	-	-
Total expenditures	\$1,382,955	\$2,515,699	\$516,800	\$ 1,093	\$111,564	\$ 796,732

Other Supplemental Information Schedule of Expenditures – General Fund

June 30, 2017

Recreation and Culture					Total	
Parks and Recreation	Public Transportation	Historical	Cultural Arts	Cable Commission	2017	2016
\$ 79,347	\$ -	\$ 4,104	\$ -	\$ -	\$2,334,751	\$ 2,209,372
-	-	-	-	-	37,598	22,095
-	-	-	-	-	(37,598)	(22,095)
24,748	-	-	-	-	1,110,279	979,131
-	-	-	-	-	41,025	39,601
-	-	-	-	-	-	2,104
-	-	-	-	-	13,316	16,501
6,657	-	-	572	-	81,318	96,424
-	-	-	-	-	5,421	5,498
13,072	-	4,049	500	-	263,503	189,194
-	67,760	1,372	-	-	419,611	465,391
-	-	-	-	-	6	-
-	-	-	-	-	37,360	35,270
-	-	-	-	-	35,240	34,933
-	-	-	-	-	12,605	13,273
-	-	-	-	-	14,493	13,078
-	-	-	-	-	188,586	151,462
-	-	-	-	-	13,942	17,591
-	-	-	-	-	2,101	3,491
-	-	-	-	-	26,462	22,301
3,609	-	-	-	-	56,314	55,813
-	-	-	-	-	6,742	5,414
-	-	-	-	-	164,449	145,569
755	-	-	2,329	-	54,710	37,483
-	-	-	-	-	6,513	8,641
-	-	-	-	-	16,472	19,766
913	-	886	-	-	114,461	109,193
816	-	5,603	-	-	65,035	66,613
-	-	-	-	-	115,661	152,076
7,374	-	-	-	-	30,439	17,225
-	-	9,070	-	-	41,517	40,014
-	-	-	-	-	7,004	11,335
11,025	-	-	-	-	24,835	24,625
-	-	-	-	-	2,500	2,500
-	-	-	-	-	32,040	37,995
-	-	-	-	-	163	84
678	-	-	-	-	2,578	1,706
-	-	-	-	-	17,755	17,123
-	-	-	-	1,174	25,234	28,909
-	-	-	-	-	6,789	8,375
-	-	216	-	-	33,716	33,093
-	-	-	-	-	21,616	1,127
-	-	-	456	-	36,626	50,125
-	-	-	-	-	88,740	541,111
\$ 148,994	\$ 67,760	\$ 25,300	\$ 3,857	\$ 1,174	\$5,571,928	\$ 5,710,530

Other Supplemental Information
 Schedule of Expenditures by Activity
 Major and Local Roads Funds

June 30, 2017

Major Roads Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing & Removal	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 81,709	\$ 3,343	\$ 18,175	\$ 4,223	\$ 107,450
Fringe benefits	-	-	37,028	1,537	8,613	1,888	49,066
Operating expense	-	-	670	3,349	36,365	820	41,204
Professional services	4,760	1,038	236	-	-	-	6,034
Contractual services	-	20,481	-	-	-	-	20,481
Insurance & bonds	-	-	56	-	-	-	56
Traffic signals	-	-	-	4,517	-	-	4,517
Repairs and maintenance	-	-	20,532	-	-	-	20,532
Equipment charges	-	-	14,000	-	1,000	-	15,000
Total expenditures	\$ 4,760	\$ 21,519	\$ 154,231	\$ 12,746	\$ 64,153	\$ 6,931	\$ 264,340

Local Roads Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 81,216	\$ 2,577	\$ 16,742	\$ 4,252	\$ 104,787
Fringe benefits	-	-	36,008	1,162	7,583	1,854	46,607
Operating expense	-	-	646	3,021	23,195	820	27,682
Professional services	4,760	-	-	-	-	-	4,760
Contractual services	-	1,237	-	-	-	-	1,237
Insurance & bonds	-	-	56	-	-	-	56
Repairs and maintenance	-	-	9,337	-	-	-	9,337
Equipment charges	-	-	15,480	-	-	-	15,480
Total expenditures	\$ 4,760	\$ 1,237	\$ 142,743	\$ 6,760	\$ 47,520	\$ 6,926	\$ 209,946

Other Supplemental Information
Schedule of Operating Expenses
Proprietary Fund – Water and Sewer Fund

June 30, 2017

	Activity			Activity			Total	
	Water	Wastewater	Sanitary	Solid Waste	Water/Sewer	2017	2016	
	Distribution							Sewer
	System	System	Repair	Repair	Repair			
Personnel services:								
Salaries and wages	\$ 225,082	\$ 28,825	\$ 325,346	\$ 42,672	\$ -	\$ -	\$ 621,925	\$ 607,837
Fringe benefits	144,814	29,329	196,751	45,841	-	-	416,735	370,341
Total personnel services	369,896	58,154	522,097	88,513	-	-	1,038,660	978,178
Equipment repairs and maintenance:								
Equipment maintenance	14,885	43,819	6,813	50,588	-	-	116,105	109,458
Building maintenance	30,031	-	93,916	-	-	-	123,947	137,381
Total equipment repairs and maintenance	44,916	43,819	100,729	50,588	-	-	240,052	246,839
Public utilities:								
Electric and gas	104,177	-	214,578	-	-	-	318,755	312,784
Telephone	2,452	-	3,579	-	-	-	6,031	6,326
Total public utilities	106,629	-	218,157	-	-	-	324,786	319,110
Refuse collection	-	-	-	-	503,350	-	503,350	501,423
Depreciation	720,704	-	720,703	-	-	-	1,441,407	1,404,814
Other services and charges - Professional services	28,127	354	11,172	354	-	-	40,007	64,446
Supplies:								
Office	858	-	897	-	-	-	1,755	1,549
Operating	41,906	1,043	132,009	2,426	-	-	177,384	193,788
Computer	253	-	253	-	-	-	506	3,640
Total supplies	43,017	1,043	133,159	2,426	-	-	179,645	198,977
Insurance	13,970	-	13,521	-	-	-	27,491	26,188
Other	8,502	-	4,515	-	-	-	13,017	19,042
Total operating expenses	\$ 1,335,761	\$ 103,370	\$ 1,724,053	\$ 141,881	\$ 503,350	\$ -	\$ 3,808,415	\$ 3,759,017

Statistical Section

City of South Lyon, Michigan

Schedule of Taxes Levied, Collected, and Returned Delinquent – 2016 Tax Roll

June 30, 2017

	<u>Final Levy</u>	<u>Taxes Collected</u>	<u>Returned Delinquent</u>	<u>Percent Collected</u>
Taxable Value: \$ 330,573,620				
City of South Lyon	\$ 4,768,396	\$ 4,712,545	\$ 55,851	98.83
Specials	2,751	1,819	932	66.12
Downtown Development Authority	27,155	26,136	1,019	96.25
Administration fee	94,421	92,734	1,687	98.21
Oakland Community College	514,245	506,588	7,657	98.51
South Lyon Community Schools	4,301,934	4,216,423	85,511	98.01
State education	1,950,010	1,920,509	29,501	98.49
Zoo Authority	32,554	31,774	780	97.60
Art Institute	65,142	63,599	1,543	97.63
Huron Clinton Metro Park	70,259	68,607	1,652	97.65
Intermediate School District	1,098,243	1,081,785	16,458	98.50
Oakland County	1,322,692	1,303,026	19,666	98.51
Total	<u>\$ 14,247,802</u>	<u>\$ 14,025,545</u>	<u>\$ 222,258</u>	<u>98.44</u>

June 30, 2017

A. Taxable Value – Fiscal Year 2016-2017 - \$326,613,310

B. Taxable Value by Use and Class – Fiscal Year 2016-2017

Use	Taxable Value	Percent of Taxable Value	SEV	Percent of SEV
Commercial	\$ 30,706,050	9.40	\$ 33,292,320	8.07
Industrial	9,446,150	2.88	9,752,340	2.36
Residential	281,972,850	86.33	365,642,080	88.50
Comm PP	4,488,260	1.37	4,488,260	1.09
Total	\$ 326,613,310	100.00	\$ 413,175,000	100.00

Class	Taxable Value	Percent of Taxable Value	SEV	Percent of SEV
Real property	\$ 322,125,050	98.63	\$ 408,686,740	98.91
Personal property	4,488,260	1.37	4,488,260	1.09
Total	\$ 326,613,310	100.00	\$ 413,175,000	100.00

C & D. Property Tax Rates by Governmental Unit - Fiscal Year 2016-2017

City of South Lyon	Rate	City of South Lyon	Rate
General operation	10.3662	Huron Clinton Authority	0.2146
Capital improvements	0.5838	Oakland County	4.0400
Building Authority	0.3000	Intermediate schools	3.3398
Debt service - Sewer G.O.	<u>3.3000</u>	Oakland Community College	1.5707
		Zoo Authority	0.0990
		Oakland County P&R	0.2392
		South Lyon Community Schools	18.0000
		Art Institute	0.1981
		State education	6.0000
		South Lyon school debt	<u>9.6000</u>
Total City of South Lyon	<u>14.5500</u>	Total governmental units	<u>59.4490</u>
District library	1.1035		
Library voted	0.4900		

Continuing Disclosure Undertaking (Continued)

June 30, 2017

E. Property Tax Collections – Fiscal Year 2016-2017 (as of 3/1/2017) – 98.44%

F. Ten Largest Taxpayers – Fiscal Year 2016-2017

Taxpayer	Principal Product or Service	Taxable Value
Colonial Acres Development Phase 5	Co-op	\$ 12,817,310
Brookdale Assn Ltd Partners	Commercial	3,697,000
Colonial Acres Development	Co-op	5,250,730
DTE	Industrial	2,846,230
Michigan Seamless Tube	Industrial	2,882,370
Roco Brookwood Farms LLC	Apartments	1,715,210
Loop Waters Edge	Apartments	1,657,240
Showerman Investment	Commercial	1,335,030
Beztek	Commercial	1,325,800
Gateway	Commercial	1,189,140
Total		<u>\$ 34,716,060</u>

G. Distributable Aid – State-Shared Revenue – Fiscal Year 2016-2017 - \$964,265

H. Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of June 30, 2017:

Debt limit (1)		\$ 41,317,500
Debt outstanding	\$ 11,372,379	
Less exempt debt	<u>9,042,379</u>	<u>2,330,000</u>
Legal debt margin		<u>\$ 38,987,500</u>

(1) 10 percent of \$413,175,000, which is the City’s SEV for the fiscal year ended June 30, 2017. See “Property Valuations” herein.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

Continuing Disclosure Undertaking (Continued)

June 30, 2017

Debt Statement

The following table reflects a breakdown of the City's direct debt as of June 30, 2017.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds in the following table, which are designated as "UT." However, the City's ability to levy tax to pay the debt service on the bonds, which are designated as "LT," is subject to applicable charter, statutory, and constitutional limitations.

City Direct Debt	Gross	Self-supporting	Net
Building Authority Bonds:			
Dated March 27, 2003 (UT)	\$ 8,782,379	\$ 8,782,379	\$ -
Dated September 1, 2000 (UT)	-	-	-
Subtotal	8,782,379	8,782,379	-
Building Authority Bonds:			
Dated July 9, 2005 (LT)	65,000	65,000	-
Dated July 1, 1999 (LT)	195,000	195,000	-
Subtotal	260,000	260,000	-
Revenue Bonds - 2012 Drinking Water Revolving Fund	2,330,000	-	2,330,000
Total	<u>\$ 11,372,379</u>	<u>\$ 9,042,379</u>	<u>\$ 2,330,000</u>
Per capita net City direct debt (1)			\$ 205.70
Percent of net direct debt to SEV (2)			0.56%

(1) Based on the City's 2010 census population of 11,327

(2) Based on \$413,175,000, which is the City's SEV for the fiscal year ended June 30, 2017. See "Property Valuations" herein.

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued)

June 30, 2017

Overlapping Debt (3)	Gross	City's Share as Percent of Gross	Net
South Lyon Schools	\$ 172,305,000	16.11%	\$ 27,758,336
Oakland County	372,198,081	0.62%	2,307,628
Oakland Intermediate School District	45,495,000	0.63%	286,619
Oakland Community College	820,000	0.63%	5,166
Total	\$ 590,818,081		\$ 30,357,749
Per capita net overlapping debt (1) (3)			\$ 2,680.12
Percent of net overlapping debt to SEV (2)			7.35%
Per capita net direct and overlapping debt (1)			\$ 2,885.83
Percent of net direct and overlapping debt to SEV (2)			7.91%

(1) Based on the City's 2010 Census population of 11,327

(2) Based on \$413,175,000, which is the City's SEV for the fiscal year ended June 30, 2017. See "Property Valuations" herein.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City