

CITY OF MILAN, MICHIGAN

Year Ended
June 30, 2016

Financial
Statements

This page intentionally left blank.

CITY OF MILAN, MICHIGAN

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	22
Statement of Net Position - Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	25
Statement of Cash Flows - Proprietary Funds	26
Statement of Fiduciary Assets and Liabilities	28
Combining Statement of Net Position - Discretely Presented Component Units	29
Combining Statement of Activities - Discretely Presented Component Units	30
Notes to Financial Statements	32
Required Supplementary Information	
MERS Agent Multiple-Employer Defined Benefit Pension Plan	
Schedule of Changes in Net Pension Liability and Related Ratios	58
Schedule of the Net Pension Liability	59
Schedule of Contributions	60
Other Postemployment Benefits	
Schedule of Funding Progress and Employer Contributions	61

CITY OF MILAN, MICHIGAN

Table of Contents

	<u>Page</u>
Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds:	
Combining Balance Sheet	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	65
Combining Balance Sheet - Nonmajor Special Revenue Funds	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds	68
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Nonmajor Special Revenue Funds	70
Combining Balance Sheet - Nonmajor Debt Service Funds	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Debt Service Funds	77
Combining Balance Sheet - Nonmajor Capital Projects Funds	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Projects Funds	79
Nonmajor Enterprise Funds:	
Combining Statement of Net Position	80
Combining Statement of Revenues, Expenses and Changes in Fund Net Position	81
Combining Statement of Cash Flows	83
Agency Funds -	
Combining Statement of Fiduciary Assets and Liabilities	84
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	89
Schedule of Findings and Responses	91



INDEPENDENT AUDITORS' REPORT

December 28, 2016

The Honorable Mayor and
Members of the City Council
City of Milan, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Milan, Michigan* (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milan, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement of Beginning Net Position

As described in Note 16, the beginning net position of the governmental activities has been increased and the business-type activities/water and sewer fund net position has been decreased to correct an error in recording the net pension liability and related deferred outflows, as well as the net other postemployment benefit obligation. Additionally, the net position of the business-type activities/water and sewer fund has been decreased to correct an error in the recording of the bond premium and the governmental activities beginning net position has been increased to correct an error in the recording of the deferred inflows for special assessments, an error in accumulated depreciation and to properly record the City's equity interest in a joint venture. Our opinion is not modified with respect to these matters.

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016 on our consideration of the City of Milan, Michigan’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

This page intentionally left blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

As management of the City of Milan, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

Financial Highlights

· Total net position	\$16,305,208
· Change in total net position	(223,243)
· Fund balances, governmental funds	2,775,217
· Change in fund balances, governmental funds	(443,233)
· Unassigned fund balance, general fund	1,892,302
· Change in fund balance, general fund	346,794
· Installment debt outstanding	10,982,860
· Change in installment debt	(877,000)

Overview of the Financial Statements

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

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

The *statement of net position* 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 finances. The longer-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. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The governmental activities of the City include general government, public safety, public works, health and welfare, planning and zoning, and culture and recreation. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. 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 operation in more detail than the government-wide financial statements by providing information about the City's most significant funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The City of Milan maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. Proprietary funds are used to report the same functions reported in the business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the pension and other postemployment benefit plans.

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$16,305,208 at the close of the most recent fiscal year. The following table shows, in a condensed format, the net position as of the current date and compared to the prior year:

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,290,935	\$ 4,655,682	\$ 2,695,299	\$ 2,797,133	\$ 6,986,234	\$ 7,452,815
Capital assets, net	7,660,391	7,021,967	22,339,863	22,228,406	30,000,254	29,250,373
Total assets	<u>11,951,326</u>	<u>11,677,649</u>	<u>25,035,162</u>	<u>25,025,539</u>	<u>36,986,488</u>	<u>36,703,188</u>
Deferred outflows of resources	614,869	267,256	213,908	96,210	828,777	363,466
Long-term liabilities	614,283	808,459	11,327,364	12,089,663	11,941,647	12,898,122
Other liabilities	7,157,735	5,738,556	2,410,675	1,901,525	9,568,410	7,640,081
Total liabilities	<u>7,772,018</u>	<u>6,547,015</u>	<u>13,738,039</u>	<u>13,991,188</u>	<u>21,510,057</u>	<u>20,538,203</u>
Net position						
Net investment in capital assets	7,220,391	6,406,967	11,029,000	10,138,743	18,249,391	16,545,710
Restricted	1,897,939	2,790,549	585,773	520,383	2,483,712	3,310,932
Unrestricted (deficit)	(4,324,153)	(3,799,626)	(103,742)	471,435	(4,427,895)	(3,328,191)
Total net position	<u>\$ 4,794,177</u>	<u>\$ 5,397,890</u>	<u>\$11,511,031</u>	<u>\$11,130,561</u>	<u>\$16,305,208</u>	<u>\$16,528,451</u>

By far, the largest portion of the City's net position, \$18,249,391, reflects its investment in capital assets (e.g., land, land improvements, buildings, building improvements, vehicles, machinery and equipment, and infrastructure), less any debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other resources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$2,483,712, represents resources that are subject to external restriction on how they may be used. The remaining *unrestricted net position* of \$(4,427,895) represents an accumulated deficit.

The government's net position decreased by \$223,243 during the current fiscal year. This net decrease was a combination of a decrease of \$603,713 in governmental activities and an increase of \$380,470 in business-type activities.

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

The following table shows the changes in net position during the current year with a comparison to prior year:

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 1,408,298	\$ 1,570,533	\$ 3,251,562	\$ 3,303,612	\$ 4,659,860	\$ 4,874,145
Operating grants	1,376,753	422,151	242,150	-	1,618,903	422,151
Capital grants	-	146,867	194,966	89,700	194,966	236,567
General revenues:						
Property taxes	2,515,291	2,275,977	-	-	2,515,291	2,275,977
State shared revenues	495,154	495,581	-	-	495,154	495,581
Unrestricted investment earnings	422	192	359	54	781	246
Franchise fees	566,834	77,052	-	-	566,834	77,052
Total revenues	6,362,752	4,988,353	3,689,037	3,393,366	10,051,789	8,381,719
Expenses						
General government	1,400,435	1,450,377	-	-	1,400,435	1,450,377
Public safety	2,419,214	2,015,154	-	-	2,419,214	2,015,154
Public works	2,109,760	1,695,581	-	-	2,109,760	1,695,581
Community development	715,200	-	-	-	715,200	-
Health and welfare	68,670	3,619	-	-	68,670	3,619
Planning and zoning	9,781	-	-	-	9,781	-
Recreation and culture	211,194	427,515	-	-	211,194	427,515
Interest on long-term debt	32,211	45,305	-	-	32,211	45,305
Water and sewer	-	-	3,272,761	3,289,542	3,272,761	3,289,542
Other sewer	-	-	35,806	36,734	35,806	36,734
Total expenses	6,966,465	5,637,551	3,308,567	3,326,276	10,275,032	8,963,827
Change in net position, before transfers	(603,713)	(649,198)	380,470	67,090	(223,243)	(582,108)
Transfers	-	(66,630)	-	66,630	-	-
Change in net position	(603,713)	(715,828)	380,470	133,720	(223,243)	(582,108)
Net position						
Beginning of year, as restated	5,397,890	10,034,713	11,130,561	12,404,420	16,528,451	22,439,133
Restatement for implementation of GASB 68	-	(3,920,995)	-	(1,407,579)	-	(5,328,574)
Net position, end of year	\$ 4,794,177	\$ 5,397,890	\$11,511,031	\$11,130,561	\$16,305,208	\$16,528,451

Governmental Activities. Governmental activities decreased the City's net position by \$603,713. This is primarily the result of increases in the net pension liability during the year.

Business-type Activities. Business-type activities increased the City's net position by \$380,470. This was primarily the result of the recent bond refunding as well as setting water and sewer rates at a level necessary to allow for operating revenues to exceed operating expenses. As with governmental activities, the enterprise fund was also subject to operational expense cuts within the fiscal year.

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$2,775,217, a decrease of \$443,233 in comparison with the prior year. Approximately 68% of this total amount (\$1,892,302) constitutes unassigned fund balance, which is available for spending at the government's discretion. \$38,275 is considered nonspendable for prepaid items. The remainder of fund balance is restricted to pay for major and local streets (\$285,472), debt service (\$245,528), to accomplish capital projects (\$101,656), or other purposes (\$208,674).

General Fund Highlights

The general fund is the chief operating fund of the City of Milan. The fund balance of the City's general fund increased by \$346,794 during the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,892,302, while total fund balance totaled \$1,929,889.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 41 percent of total general fund expenditures, while total fund balance represents 42 percent of that same amount.

The most significant category is public safety, which includes mostly police and fire, and which incurred expenses of \$1,888,838 in 2016 or 41 percent of the total general fund expenditures.

General government expenditures totaled \$1,171,879, which include the various administrative departments, insurance and special projects activities of the general fund. Transfers out for the general fund includes \$252,600 to the local street fund.

As shown in the budget to actual statement, the City had originally budgeted operational expenditures of \$3,792,642. During the course of the year, the City authorized total budget amendments of \$80,200 as a result of larger expenditures, amending budgeted expenditures to \$3,872,842. Actual operating results were greater than the budget by \$713,023, primarily due to grant expenditures that exceeded the appropriated amounts. Revenues for the expenditures also exceeded the budget by similar amounts for these grants.

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

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$30,000,254 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, building improvements, vehicles, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- The increase in infrastructure was mainly due to the large road projects that were completed during the year which also involved replacing water and sewer lines.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 73,500	\$ 73,500	\$ 30,000	\$ 30,000	\$ 103,500	\$ 103,500
Construction in progress	21,001	-	-	-	21,001	-
Land improvements	848,929	875,868	-	-	848,929	875,868
Buildings	1,544,199	1,609,406	3,456,518	3,615,149	5,000,717	5,224,555
Building improvements	124,978	77,781	-	-	124,978	77,781
Vehicles, machinery and equipment	511,552	282,095	255,715	293,968	767,267	576,063
Infrastructure	4,536,232	4,103,317	18,597,630	18,289,289	23,133,862	22,392,606
Total capital assets, net	\$ 7,660,391	\$ 7,021,967	\$22,339,863	\$22,228,406	\$30,000,254	\$29,250,373

Additional information on the City's capital assets can be found in the notes to financial statements.

Long-term Debt. The City's long-term debt totaled \$11,941,647. This amount includes bonds payable, USDA loans, installment purchase note, and compensated absences (earned but unused sick and vacation time).

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonds payable	\$ 440,000	\$ 615,000	\$ 7,665,000	\$ 8,300,000	\$ 8,105,000	\$ 8,915,000
Installment purchase note	-	-	171,860	202,860	171,860	202,860
USDA loans	-	-	2,706,000	2,742,000	2,706,000	2,742,000
Premiums on bonds	-	-	768,003	844,803	768,003	844,803
Compensated absences	174,283	193,459	16,501	-	190,784	193,459
Total long-term debt	\$ 614,283	\$ 808,459	\$11,327,364	\$12,089,663	\$11,941,647	\$12,898,122

Additional information on the City's long-term debt can be found in the notes to financial statements.

CITY OF MILAN, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2016-17 fiscal year and will continue to be an on-going concern as the City moves forward with projected budgets.

- The market value of real estate in southeastern Michigan has started to show signs of improvement; however, with the recent changes in legislation affecting personal property taxes, overall property tax revenue is anticipated to increase at a slower rate than the noted increase in market value of real estate.
- The need for local road improvements has been apparent for many years. The City receives road funding from Act 51 distributions; however, the overall cost of construction for road projects has increased over the years. The City currently dedicates 1.0000 mill from the general operating millage to road improvements within the City.
- The City levied 15.4 mills in the 2016 fiscal year and has adopted a balanced budget for fiscal year 2016-17 with the considerations mentioned above.
- The City Administration and City Council continue to review operating costs, to ensure that the current funding plans remain viable.

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 money it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City Administrator, 147 Wabash, Milan, MI 48160.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

CITY OF MILAN, MICHIGAN

Statement of Net Position

June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 2,642,738	\$ 1,787,429	\$ 4,430,167	\$ 272,294
Receivables, net	1,066,190	826,681	1,892,871	1,108
Inventories and prepaid items	38,275	81,189	119,464	-
Investment in Milan Area Fire Department	543,732	-	543,732	-
Capital assets not being depreciated	94,501	30,000	124,501	-
Capital assets being depreciated, net	7,565,890	22,309,863	29,875,753	-
Total assets	11,951,326	25,035,162	36,986,488	273,402
Deferred outflows of resources				
Deferred pension amounts	614,869	213,908	828,777	-
Liabilities				
Accounts payable and accrued expenses	463,107	287,774	750,881	650
Long-term debt:				
Due within one year	173,026	817,450	990,476	-
Due in more than one year	441,257	10,509,914	10,951,171	-
Net pension liability	5,192,859	1,806,547	6,999,406	-
Net other postemployment benefit obligation	1,501,769	316,354	1,818,123	-
Total liabilities	7,772,018	13,738,039	21,510,057	650
Net position				
Net investment in capital assets	7,220,391	11,029,000	18,249,391	-
Restricted for:				
Major and local streets	286,160	-	286,160	-
Public safety	543,732	-	543,732	-
Debt service	561,924	585,773	1,147,697	-
Capital projects	101,656	-	101,656	-
Other purposes	404,467	-	404,467	-
Unrestricted (deficit)	(4,324,153)	(103,742)	(4,427,895)	272,752
Total net position	\$ 4,794,177	\$ 11,511,031	\$ 16,305,208	\$ 272,752

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

CITY OF MILAN, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 1,400,435	\$ 436,622	\$ 31,371	\$ -	\$ (932,442)
Public safety	2,419,214	65,522	143,069	-	(2,210,623)
Public works	2,109,760	861,558	485,771	-	(762,431)
Community development	715,200	-	715,938	-	738
Health and welfare	68,670	-	-	-	(68,670)
Planning and zoning	9,781	-	-	-	(9,781)
Culture and recreation	211,194	44,596	604	-	(165,994)
Interest on long-term debt	32,211	-	-	-	(32,211)
Total governmental activities	6,966,465	1,408,298	1,376,753	-	(4,181,414)
Business-type activities:					
Water and sewer	3,272,761	3,251,562	209,924	185,366	374,091
Other sewer	35,806	-	32,226	9,600	6,020
Total business-type activities	3,308,567	3,251,562	242,150	194,966	380,111
Total primary government	\$ 10,275,032	\$ 4,659,860	\$ 1,618,903	\$ 194,966	\$ (3,801,303)
Component units					
Brownfield Redevelopment Authority	\$ 59,106	\$ -	\$ -	\$ -	\$ (59,106)
Downtown Development Authority	8,018	-	-	-	(8,018)
Total component units	\$ 67,124	\$ -	\$ -	\$ -	\$ (67,124)

continued...

CITY OF MILAN, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (4,181,414)	\$ 380,111	\$ (3,801,303)	\$ (67,124)
General revenues:				
Property taxes	2,515,291	-	2,515,291	5,459
State revenue sharing	495,154	-	495,154	-
Grants and contributions not restricted to specific programs	566,834	-	566,834	37,674
Unrestricted investment earnings	422	359	781	100
Total general revenues	3,577,701	359	3,578,060	43,233
Change in net position	(603,713)	380,470	(223,243)	(23,891)
Net position, beginning of year, as restated	5,397,890	11,130,561	16,528,451	296,643
Net position, end of year	\$ 4,794,177	\$ 11,511,031	\$ 16,305,208	\$ 272,752

concluded.

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

CITY OF MILAN, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 2,024,857	\$ 617,881	\$ 2,642,738
Interfund receivable	14,815	-	14,815
Accounts receivable, net	110,325	208,055	318,380
Special assessments receivable	-	512,189	512,189
Due from other governments	143,743	91,878	235,621
Prepaid items	37,587	688	38,275
Total assets	\$ 2,331,327	\$ 1,430,691	\$ 3,762,018
Liabilities			
Interfund payable	\$ -	\$ 14,815	\$ 14,815
Accounts payable	212,909	57,397	270,306
Accrued payroll	21,891	962	22,853
Accrued liabilities	166,638	-	166,638
Total liabilities	401,438	73,174	474,612
Deferred inflows of resources			
Unavailable revenue - special assessments	-	512,189	512,189
Fund balances			
Nonspendable	37,587	688	38,275
Restricted	-	844,640	844,640
Unassigned	1,892,302	-	1,892,302
Total fund balances	1,929,889	845,328	2,775,217
Total liabilities, deferred inflows of resources and fund balances	\$ 2,331,327	\$ 1,430,691	\$ 3,762,018

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

CITY OF MILAN, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2016

Fund balances - total governmental funds	\$ 2,775,217
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	94,501
Capital assets being depreciated	19,825,909
Accumulated depreciation	(12,260,019)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (i.e., receivables) are offset by deferred inflows of resources in the governmental funds and, therefore, not included in fund balance.	
Unavailable special assessments	512,189
Equity interest in joint venture	543,732
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General obligation bonds	(440,000)
Accrued interest on long-term debt	(3,310)
Net other postemployment benefits obligation	(1,501,769)
Compensated absences	(174,283)
Certain pension-related amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(5,192,859)
Deferred outflows related to the net pension liability	614,869
Net position of governmental activities	<u>\$ 4,794,177</u>

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

CITY OF MILAN, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 2,515,291	\$ -	\$ 2,515,291
Licenses and permits	87,278	-	87,278
Federal revenue	715,938	-	715,938
State revenue	983,662	483,201	1,466,863
Local revenue	21,889	33,056	54,945
Charges for services	418,464	622,489	1,040,953
Special assessments	-	157,928	157,928
Fines and forfeitures	16,292	-	16,292
Interest	422	-	422
Other	426,023	24,053	450,076
Total revenues	5,185,259	1,320,727	6,505,986
Expenditures			
Current expenditures:			
General government	1,171,879	-	1,171,879
Public safety	1,888,838	26,992	1,915,830
Planning and zoning	9,781	-	9,781
Public works	584,587	888,684	1,473,271
Community development	715,200	-	715,200
Health and welfare	68,670	-	68,670
Culture and recreation	146,910	14,968	161,878
Capital outlay	-	1,228,809	1,228,809
Debt service:			
Principal	-	175,000	175,000
Interest and fiscal charges	-	28,901	28,901
Total expenditures	4,585,865	2,363,354	6,949,219
Revenues over (under) expenditures	599,394	(1,042,627)	(443,233)
Other financing sources (uses)			
Transfers in	-	252,600	252,600
Transfers out	(252,600)	-	(252,600)
Total other financing sources (uses)	(252,600)	252,600	-
Net change in fund balances	346,794	(790,027)	(443,233)
Fund balances, beginning of year	1,583,095	1,635,355	3,218,450
Fund balances, end of year	\$ 1,929,889	\$ 845,328	\$ 2,775,217

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

CITY OF MILAN, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$ (443,233)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased / constructed	1,237,106
Depreciation expense	(598,682)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather deferred to subsequent fiscal years.	
Change in long-term special assessments receivable	(143,234)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	175,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrued interest payable on long-term debt	(3,310)
Change in net pension liability and related deferred outflows	(667,927)
Change in net other postemployment benefits obligation	(222,292)
Change in the accrual for compensated absences	19,176
Change in equity interest in joint venture	43,683
Change in net position of governmental activities	<u>\$ (603,713)</u>

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

CITY OF MILAN, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 2,498,700	\$ 2,498,700	\$ 2,515,291	\$ 16,591
Licenses and permits	66,750	66,750	87,278	20,528
Federal revenue	-	80,200	715,938	635,738
State revenue	517,967	923,591	983,662	60,071
Local revenue	9,000	9,000	21,889	12,889
Charges for services	398,688	398,688	418,464	19,776
Fines and forfeitures	12,000	12,000	16,292	4,292
Interest	100	100	422	322
Other	265,500	265,500	426,023	160,523
Total revenues	3,768,705	4,254,529	5,185,259	930,730
Expenditures				
General government:				
City council	49,608	49,608	49,173	(435)
City administrator	173,918	173,918	171,677	(2,241)
Elections	86,883	86,883	55,298	(31,585)
Assessor	104,801	104,801	89,185	(15,616)
Clerk/Treasurer	299,051	299,051	283,354	(15,697)
City hall	168,980	168,980	259,745	90,765
Information technology	165,261	165,261	168,483	3,222
Building maintenance	82,000	82,000	94,964	12,964
Total general government	1,130,502	1,130,502	1,171,879	41,377
Public safety:				
Police	1,546,187	1,546,187	1,480,285	(65,902)
Fire	210,000	210,000	231,298	21,298
Building	165,623	165,623	177,255	11,632
Total public safety	1,921,810	1,921,810	1,888,838	(32,972)
Planning and zoning	4,800	4,800	9,781	4,981

continued...

CITY OF MILAN, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Public works -				
Department of public works	\$ 538,793	\$ 538,793	\$ 584,587	\$ 45,794
Community development	-	80,200	715,200	635,000
Health and welfare -				
Senior citizens	68,670	68,670	68,670	-
Culture and recreation	128,067	128,067	146,910	18,843
Total expenditures	3,792,642	3,872,842	4,585,865	713,023
Revenues over (under) expenditures	(23,937)	381,687	599,394	217,707
Other financing sources (uses)				
Transfers in	9,020	9,020	-	(9,020)
Transfers out	(157,600)	(457,600)	(252,600)	(205,000)
Total other financing sources (uses)	(148,580)	(448,580)	(252,600)	195,980
Net change in fund balance	(172,517)	(66,893)	346,794	413,687
Fund balance, beginning of year	1,583,095	1,583,095	1,583,095	-
Fund balance, end of year	\$ 1,410,578	\$ 1,516,202	\$ 1,929,889	\$ 413,687

concluded.

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

CITY OF MILAN, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2016

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Nonmajor Enterprise Funds	Total
Assets			
Current assets:			
Cash and investments	\$ 1,742,199	\$ 45,230	\$ 1,787,429
Accounts receivable	683,113	-	683,113
Due from other governments	111,342	32,226	143,568
Inventories	72,004	-	72,004
Prepaid items	9,185	-	9,185
Total current assets	2,617,843	77,456	2,695,299
Noncurrent assets:			
Capital assets not being depreciated	30,000	-	30,000
Capital assets being depreciated, net	22,309,863	-	22,309,863
Total noncurrent assets	22,339,863	-	22,339,863
Total assets	24,957,706	77,456	25,035,162
Deferred outflows of resources			
Deferred pension amounts	213,908	-	213,908
Liabilities			
Current liabilities:			
Accounts payable	152,720	-	152,720
Accrued payroll	2,251	-	2,251
Accrued liabilities	3,050	-	3,050
Accrued interest payable	129,753	-	129,753
Compensated absences, current portion	1,650	-	1,650
Bonds, notes, and loans payable, current portion	815,800	-	815,800
Total current liabilities	1,105,224	-	1,105,224
Noncurrent liabilities:			
Compensated absences	14,851	-	14,851
Bonds, notes, and loans payable	10,495,063	-	10,495,063
Net pension liability	1,806,547	-	1,806,547
Net other postemployment benefit obligation	316,354	-	316,354
Total noncurrent liabilities	12,632,815	-	12,632,815
Total liabilities	13,738,039	-	13,738,039
Net position			
Net investment in capital assets	11,029,000	-	11,029,000
Restricted for debt service	585,773	-	585,773
Unrestricted	(181,198)	77,456	(103,742)
Total net position	\$ 11,433,575	\$ 77,456	\$ 11,511,031

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

CITY OF MILAN, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Nonmajor Enterprise Funds	Total
Operating revenues			
Charges for services	\$ 3,251,562	\$ -	\$ 3,251,562
Billing fees	185,366	-	185,366
Other	98,582	-	98,582
Total operating revenues	3,535,510	-	3,535,510
Operating expenses			
Water operating expenses:			
Wages and benefits	172,015	-	172,015
Supplies	98,312	-	98,312
Contractual services	217,810	-	217,810
Other operating costs	271,870	-	271,870
Sewer operating expenses:			
Wages and benefits	252,702	-	252,702
Supplies	13,130	-	13,130
Contractual services	675,153	35,806	710,959
Other operating costs	331,941	-	331,941
Depreciation	798,001	-	798,001
Total operating expenses	2,830,934	35,806	2,866,740
Operating income (loss)	704,576	(35,806)	668,770
Nonoperating revenues (expenses)			
State revenue	111,342	32,226	143,568
Interest revenue	335	24	359
Interest expense	(441,827)	-	(441,827)
Total nonoperating revenues (expenses)	(330,150)	32,250	(297,900)
Income (loss) before capital contributions	374,426	(3,556)	370,870
Capital contributions	-	9,600	9,600
Change in net position	374,426	6,044	380,470
Net position, beginning of year, as restated	11,059,149	71,412	11,130,561
Net position, end of year	\$ 11,433,575	\$ 77,456	\$ 11,511,031

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

CITY OF MILAN, MICHIGAN

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Nonmajor Enterprise Funds	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 3,538,827	\$ -	\$ 3,538,827
Payments to suppliers and contractors	(585,388)	(35,806)	(621,194)
Payments to employees for services	(1,178,483)	-	(1,178,483)
Net cash provided by (used in) operating activities	<u>1,774,956</u>	<u>(35,806)</u>	<u>1,739,150</u>
Cash flows from capital and related financing activities			
Proceeds from capital contributions	-	9,600	9,600
Principal paid on debt	(702,000)	-	(702,000)
Interest paid on debt	(388,874)	-	(388,874)
Purchase of capital assets	(909,458)	-	(909,458)
Net cash provided by (used in) capital and related financing activities	<u>(2,000,332)</u>	<u>9,600</u>	<u>(1,990,732)</u>
Cash flows from investing activities			
Interest earnings on investments	<u>335</u>	<u>24</u>	<u>359</u>
Net change in cash and investments	(225,041)	(26,182)	(251,223)
Cash and investments, beginning of year	<u>1,967,240</u>	<u>71,412</u>	<u>2,038,652</u>
Cash and investments, end of year	<u>\$ 1,742,199</u>	<u>\$ 45,230</u>	<u>\$ 1,787,429</u>

continued...

CITY OF MILAN, MICHIGAN

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds		
	Water and Sewer Fund	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to cash provided by (used in) operating activities			
Operating income (loss)	\$ 704,576	\$ (35,806)	\$ 668,770
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	798,001	-	798,001
Changes in assets and liabilities:			
Accounts receivable	(32,651)	-	(32,651)
Due from other funds	35,968	-	35,968
Inventories	(1,392)	-	(1,392)
Prepaid items	(7,746)	-	(7,746)
Accounts payable	114,906	-	114,906
Accrued payroll	2,251	-	2,251
Accrued liabilities	(87,345)	-	(87,345)
Compensated absences	16,501	-	16,501
Net pension liability and related deferred outflows	185,060	-	185,060
Net other postemployment benefit obligation	46,827	-	46,827
Net cash provided by (used in) operating activities	<u>\$ 1,774,956</u>	<u>\$ (35,806)</u>	<u>\$ 1,739,150</u>

concluded.

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

CITY OF MILAN, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Fiduciary Funds

June 30, 2016

	Agency Funds
Assets	
Cash and investments	\$ 55,341
Liabilities	
Accounts payable	\$ 36,356
Due to other governments	18,985
Total liabilities	\$ 55,341

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

CITY OF MILAN, MICHIGAN

Combining Statement of Net Position Discretely Presented Component Units June 30, 2016

	Brownfield Redevelopment Authority	Downtown Development Authority	Economic Development Corporation	Total
Assets				
Cash and investments	\$ 203,355	\$ 59,323	\$ 9,616	\$ 272,294
Receivables	-	1,108	-	1,108
Total assets	203,355	60,431	9,616	273,402
Liabilities				
Accounts payable and accrued expenses	-	650	-	650
Net position				
Unrestricted	\$ 203,355	\$ 59,781	\$ 9,616	\$ 272,752

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

CITY OF MILAN, MICHIGAN

Combining Statement of Activities Discretely Presented Component Units For the Year Ended June 30, 2016

	Brownfield Redevelopment Authority	Downtown Development Authority	Economic Development Corporation	Total
Expenses				
Community and economic development	\$ 59,106	\$ 8,018	\$ -	\$ 67,124
General revenues				
Property taxes	-	5,459	-	5,459
Unrestricted investment earnings	100	-	-	100
Grants and contributions not restricted to specific programs	-	37,674	-	37,674
Total general revenues	100	43,133	-	43,233
Change in net position	(59,006)	35,115	-	(23,891)
Net position, beginning of year	262,361	24,666	9,616	296,643
Net position, end of year	\$ 203,355	\$ 59,781	\$ 9,616	\$ 272,752

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Milan, Michigan (the “City”) is a municipal corporation established in 1831, chartered as a Village in 1885 and became a City in 1967. Located 12 miles south of Ann Arbor, 45 miles southwest of Detroit and 25 miles north of the Ohio State line, the City covers an area of 3.00 square miles. Milan is a home-rule city, which operates under an elected city council which consists of the mayor and six council members, with the daily activity managed by the city administrator and department heads. The City provides services to its more than 5,200 residents in many areas including law enforcement, fire protection, water, sewer, transportation, parks and recreation.

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the City is financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statement to emphasize that they are legally separate from the government.

Discretely presented component units

The following component units are reported within the component unit column in the statement of net position.

Brownfield Redevelopment Authority (the “BRA”) - The BRA was established pursuant to Public Act 381 of 1996 to promote the revitalization of environmentally distressed areas in the City. The BRA is governed by a seven member board appointed by the Milan City Council. The annual operating budget and any modifications require the approval of the Milan City Council.

Downtown Development Authority (the “DDA”) - The DDA is comprised of the Mayor and twelve members appointed by the City Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Milan City Council.

Economic Development Corporation (the “EDC”) - The EDC is governed by a nine member board appointed by the City Council. The EDC was established to promote economic development within the City. The annual operating budget and any modifications require the approval of the Milan City Council.

Joint venture

The City is a participant with London Township, Milan Township, and York Township in the Milan Area Fire Department. The Department was established by interlocal agreements between the parties in 1980, and was established to provide fire protection services to the participating communities. The Department is governed by an executive committee consisting of the chief executive from each of the communities, along with appointed members by each community’s governing body. Detailed information on this relationship is presented in Note 18.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Government-wide and fund financial statements

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, intergovernmental revenue, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

The City reports the following major governmental fund -

The *general fund* is the City's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

The City reports the following major proprietary fund -

The *water and sewer fund* accounts for the operation and maintenance of the water and sewer systems, capital additions and improvements, and retirement of related long-term debt. Financing is provided by user charges.

Additionally, the City reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *agency funds* account for assets held by the City as an agent for individuals, private organizations, and other governments.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Restricted net position is reported for amounts that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

State statutes authority the City to invest in the following types of investments. The City's formal investment policy is consistent with the state statutes.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

Receivables and payables

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are recorded as unearned revenue.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Inventories and prepaid items

Inventories in the proprietary fund are accounted for utilizing the consumption method and are valued at lower of cost (first-in, first-out) or market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings	15-30
Equipment	5-20
Infrastructure	15-30

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for the change in expected and actual investment returns, assumptions, and benefits provided in its pension plan, as well as a portion that represents contributions to the plan subsequent to the plan measurement date.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Compensated absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time. A liability for sick and vacation time is accrued when incurred in the government-wide and proprietary fund financial statements, whereas it is reported in governmental funds only if it has matured, for example, as a result of employee resignations or retirements.

Long-term obligations

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

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

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until that time. The government has one type of item that qualifies for reporting in this category. This item arises only under the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City currently has no committed fund balance. The City has no *assigned fund balance* as the City Council has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund or for any fund in a deficit position.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Property taxes

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 31, and winter taxes are levied on December 1 and are due without penalty before March 1. The City bills and collects its own property taxes for general governmental services. A portion of the general fund levy is allocated to the major and local streets special revenue funds each year, as determined by the City Council. Additionally, the City collects taxes for Washtenaw County, Monroe County, and various authorities and school districts. Collections of property taxes and remittances to the appropriate authorities are accounted for in the tax collection agency fund.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the 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.

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.

2. BUDGETARY INFORMATION

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually.

The budget document presents information by fund, function, activity, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Expenditures at this level in excess of amounts budgeted for activities are a violation of Michigan law. Budget amendments are proposed as needed and subject to formal approval by the City Council.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted at the activity level for the general fund and special revenue funds. During the year the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance with Final Budget
General fund:			
General government:			
City hall	\$ 168,980	\$ 259,745	\$ 90,765
Information technology	165,261	168,483	3,222
Building maintenance	82,000	94,964	12,964
Public safety:			
Fire	210,000	231,298	21,298
Building	165,623	177,255	11,632
Planning and zoning	4,800	9,781	4,981
Public works -			
Department of public works	538,793	584,587	45,794
Community development	80,200	715,200	635,000
Culture and recreation	128,067	146,910	18,843
Nonmajor governmental funds:			
Major streets - capital outlay	391,323	510,184	118,861
Rubbish	549,079	555,178	6,099
Rubbish - capital outlay	-	36,468	36,468

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposits and investments as of June 30, 2016:

	Primary Government	Component Units	Totals
Statement of net position			
Cash and investments	\$ 4,430,167	\$ 272,294	\$ 4,702,461
Statement of fiduciary assets and liabilities			
Cash and investments	55,341	-	55,341
Total	\$ 4,485,508	\$ 272,294	\$ 4,757,802
Deposits and investments			
Demand deposits (checking/savings accounts)			\$ 3,793,269
Investments in money markets			27,223
Investments in securities and mutual funds			937,007
Cash on hand			303
Total			\$ 4,757,802

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$3,642,183 of the City's bank balance of \$3,892,183 was exposed to custodial credit risk because it was uninsured and uncollateralized.

In accordance with State law, all deposits are uncollateralized and held in the City's name. Due to the dollar amounts of deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. Investments are exposed to custodial credit risk if the securities are uninsured, unregistered or held by a counterparty or its agent but not in the government's name. All investments are held in the name of the City by a counterparty, and thus are not exposed to custodial credit risk. Following is a summary of the City's investments as of June 30, 2016:

U.S. government agencies	\$ 695,329
U.S. government mutual funds	<u>241,678</u>
Total	<u>\$ 937,007</u>

Credit Risk. State law limits investments to specific governmental securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. Credit risk ratings, where applicable, are summarized as follows:

S&P AAA/AAAm	\$ 695,329
Not rated	<u>241,678</u>
Total investments	<u>\$ 937,007</u>

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. Maturity dates for investments held at year-end are as follows:

No maturity	\$ 241,678
Due in 1-5 years	<u>695,329</u>
Total investments	<u>\$ 937,007</u>

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. All investments held at year end are listed above.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Fair Value. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the City's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary.

The City's recurring fair value measurements as of June 30, 2016 were related to its investments in U.S. government agencies and U.S. government mutual funds. These investments are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

5. RECEIVABLES

Receivables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
Accounts receivable	\$ 365,501	\$ 683,113
Allowance for uncollectible accounts	(47,121)	-
Special assessments receivable	512,189	-
Due from other governments	235,621	143,568
	<u>\$ 1,066,190</u>	<u>\$ 826,681</u>
Amount not expected to be collected within one year	<u>\$ 365,000</u>	<u>\$ -</u>

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

6. CAPITAL ASSETS

Primary government

Capital asset activity for the year ended June 30, 2016 was as follows:

	Restated Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 73,500	\$ -	\$ -	\$ 73,500
Construction in progress	-	21,001	-	21,001
	<u>73,500</u>	<u>21,001</u>	<u>-</u>	<u>94,501</u>
Capital assets being depreciated:				
Land improvements	1,927,163	18,000	-	1,945,163
Buildings	3,343,966	-	-	3,343,966
Building improvements	137,520	54,921	-	192,441
Vehicles, machinery and equipment	2,520,299	288,141	-	2,808,440
Infrastructure	10,680,856	855,043	-	11,535,899
	<u>18,609,804</u>	<u>1,216,105</u>	<u>-</u>	<u>19,825,909</u>
Less accumulated depreciation for:				
Land improvements	(1,051,295)	(44,939)	-	(1,096,234)
Buildings	(1,734,560)	(65,207)	-	(1,799,767)
Building improvements	(59,739)	(7,724)	-	(67,463)
Vehicles, machinery and equipment	(2,238,204)	(58,684)	-	(2,296,888)
Infrastructure	(6,577,539)	(422,128)	-	(6,999,667)
	<u>(11,661,337)</u>	<u>(598,682)</u>	<u>-</u>	<u>(12,260,019)</u>
Total capital assets being depreciated, net	<u>6,948,467</u>	<u>617,423</u>	<u>-</u>	<u>7,565,890</u>
Governmental activities capital assets, net	<u>\$ 7,021,967</u>	<u>\$ 638,424</u>	<u>\$ -</u>	<u>\$ 7,660,391</u>

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Capital assets not being depreciated -				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital assets being depreciated:				
Buildings	8,139,324	-	-	8,139,324
Machinery and equipment	4,732,280	-	-	4,732,280
Infrastructure	26,423,327	909,458	-	27,332,785
	<u>39,294,931</u>	<u>909,458</u>	<u>-</u>	<u>40,204,389</u>
Less accumulated depreciation for:				
Buildings	(4,524,175)	(158,631)	-	(4,682,806)
Machinery and equipment	(4,438,312)	(38,253)	-	(4,476,565)
Infrastructure	(8,134,038)	(601,117)	-	(8,735,155)
	<u>(17,096,525)</u>	<u>(798,001)</u>	<u>-</u>	<u>(17,894,526)</u>
Total capital assets being depreciated, net	<u>22,198,406</u>	<u>111,457</u>	<u>-</u>	<u>22,309,863</u>
Business-type activities capital assets, net	<u>\$ 22,228,406</u>	<u>\$ 111,457</u>	<u>\$ -</u>	<u>\$ 22,339,863</u>

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

Depreciation of governmental activities by function	
General government	\$ 53,344
Public safety	42,338
Public works	466,850
Culture and recreation	<u>36,150</u>
Total governmental activities	<u>\$ 598,682</u>
Depreciation of business-type activities by function	
Water and sewer	<u>\$ 798,001</u>

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

7. PAYABLES

Payables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 270,306	\$ 152,720
Accrued payroll	22,853	2,251
Accrued liabilities	166,638	3,050
Accrued interest payable	3,310	129,753
	<u>\$ 463,107</u>	<u>\$ 287,774</u>

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016, was as follows:

	Interfund Receivable	Interfund Payable
General	\$ 14,815	\$ -
Nonmajor governmental funds	-	14,815
	<u>\$ 14,815</u>	<u>\$ 14,815</u>

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. All interfund balances are expected to be collected within one year.

For the year ended June 30, 2016, interfund transfers are summarized as follows:

	Transfers Out
Transfers In	General Fund
Nonmajor governmental funds	<u>\$ 252,600</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2016 is summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 615,000	\$ -	\$ (175,000)	\$ 440,000	\$ 165,000
Compensated absences	193,459	106,106	(125,282)	174,283	8,026
Total governmental activities	\$ 808,459	\$ 106,106	\$ (300,282)	\$ 614,283	\$ 173,026
Business-type activities					
General obligation bonds	\$ 8,300,000	\$ -	\$ (635,000)	\$ 7,665,000	\$ 670,000
Installment purchase note	202,860	-	(31,000)	171,860	32,000
USDA loans	2,742,000	-	(36,000)	2,706,000	37,000
Subtotal - installment debt	11,244,860	-	(702,000)	10,542,860	739,000
Deferred amounts -					
For issuance premiums	844,803	-	(76,800)	768,003	76,800
Compensated absences	-	21,227	(4,726)	16,501	1,650
Total business-type activities	\$ 12,089,663	\$ 21,227	\$ (783,526)	\$ 11,327,364	\$ 817,450

For governmental activities, compensated absences are generally liquidated by the general fund.

Governmental activities - general obligation bonds payable

1998 Special Assessment Bonds; \$630,000 at issuance; payable in annual installments of \$10,000 to \$45,000; interest payable semi-annually at 4.50 to 6.50 percent through March 2018	\$ 45,000
2003 Special Assessment Bonds; \$1,285,000 at issuance; payable in annual installments of \$90,000 to \$95,000; interest payable semi-annually at 2.50 to 4.40 percent through March 2018	185,000
2005 Special Assessment Bonds; \$735,000 at issuance; payable in annual installments of \$50,000 to \$55,000; interest payable semi-annually at 3.35 to 4.75 percent through March 2020	<u>210,000</u>
Total governmental activities general obligation bonds payable	<u>\$ 440,000</u>

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Business-type activities - general obligation bonds payable

1998 General Obligation Limited Tax Bonds; \$300,000 at issuance; due in annual installments of \$5,000 to \$25,000; interest payable semi-annually at 4.50 to 6.50 percent through March 2018	\$ 45,000
2015 Capital Improvement Sewer Refunding Bonds; \$8,235,000 at issuance; due in annual installments of \$615,000 to \$900,000; interest payable semi-annually at 2.00 to 4.00 percent through June 2026	<u>7,620,000</u>
Total business-type activities general obligation bonds payable	<u>\$ 7,665,000</u>

Installment purchase agreement. The City entered into an installment purchase agreement for a street sweeper. Principal payments are due in annual installments of \$30,000 to \$36,860, with interest due semi-annually at 3.40% through September 2020.

USDA loans. The City entered into two loans with the USDA. USDA loans outstanding at year-end are as follows:

	Final Payment Date	Interest Rate	Original Amount	Amount Outstanding
USDA loans				
<i>Business-type activities</i>				
Riverside Water Loan	08/01/2049	4.25%	\$ 2,386,000	\$ 1,993,000
Riverside Sewer Loan	08/01/2050	4.25%	806,000	713,000
			<u>\$ 3,192,000</u>	<u>\$ 2,706,000</u>

Debt service requirements to maturity for all installment debt of the City are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 165,000	\$ 19,856	\$ 739,000	\$ 407,559
2018	170,000	12,560	762,000	390,841
2019	50,000	4,912	759,000	366,819
2020	55,000	2,612	789,000	336,508
2021	-	-	820,860	305,042
2022-2026	-	-	4,421,000	1,020,961
2027-2031	-	-	308,000	442,086
2032-2036	-	-	380,000	366,819
2037-2041	-	-	470,000	274,130
2042-2046	-	-	576,000	171,149
2047-2051	-	-	518,000	40,675
	<u>\$ 440,000</u>	<u>\$ 39,940</u>	<u>\$ 10,542,860</u>	<u>\$ 4,122,589</u>

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

10. 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 underground storage tanks and medical benefit claims. The City participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, property loss, torts, and errors and omissions. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

11. CONTINGENCIES

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

12. PENSION PLAN

General Information About the Plan

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

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers ranging from 1.5% to 2.5%. Participants are considered to be fully vested in the plan after 6 or 10 years, depending on division/bargaining unit. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, or age 55 with 15 years of service, depending on division/bargaining unit.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Employees Covered by Benefit Terms. At December 31, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>6</u>
 Total membership	 <u><u>56</u></u>

Contributions. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, employer contributions ranged from \$1,714 to \$16,555 per month, or 11.14% of annual payroll, depending on division/bargaining unit. In addition, the employer may establish contribution rates to be paid by its covered employees. Currently, members are not required to contribute to the plan.

Net Pension Liability. The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.5%	5.02%	2.89%
Global fixed income	20.0%	2.18%	0.44%
Real assets	12.5%	4.23%	0.51%
Diversifying strategies	<u>10.0%</u>	6.56%	0.66%
	<u>100.0%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.50%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	\$ 11,691,709	\$ 6,010,601	\$ 5,681,108
Changes for the year:			
Service cost	49,502	-	49,502
Interest	931,540	-	931,540
Differences between expected and actual experience	235,444	-	235,444
Changes in assumptions	575,166	-	575,166
Employer contributions	-	573,759	(573,759)
Net investment income (loss)	-	(87,482)	87,482
Benefit payments, including refunds of employee contributions	(850,110)	(850,110)	-
Administrative expense	-	(12,923)	12,923
Net changes	<u>941,542</u>	<u>(376,756)</u>	<u>1,318,298</u>
Balances at December 31, 2015	<u>\$ 12,633,251</u>	<u>\$ 5,633,845</u>	<u>\$ 6,999,406</u>

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 8.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
\$ 8,352,064	\$ 6,999,406	\$ 5,856,481

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized pension expense of \$1,434,917. The City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 522,661
Contributions subsequent to the measurement date	<u>306,116</u>
Total	<u>\$ 828,777</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 136,126
2018	136,126
2019	136,124
2020	<u>114,285</u>
Total	<u>\$ 522,661</u>

Payable to the Pension Plan. At June 30, 2016, the City reported a payable of \$56,700 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

13. DEFINED CONTRIBUTION PLAN

Plan Description. The City of Milan contributes to the City of Milan defined contribution plan, which is a defined contribution money purchase pension plan. The plan is administered by the Municipal Employees Retirement System (MERS) of Michigan who sponsors the prototype plan. Amendments are developed by MERS and submitted to the City Council for approval.

A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All employees hired on or after July 1, 1998 are eligible to participate in the plan. Contributions made by the City or an employee vest immediately.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Contributions. Each participating employee contributes 3% of gross earnings to the plan which the City will match. The employees may contribute an additional 2% for a total of 5% to the plan which will also be matched by the City. Employer contributions on behalf of the employee shall not exceed 5% of an employee's gross earnings. During the year, employee contributions totaled \$69,704 and the City's required and actual contributions amounted to \$73,828.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Primary Government

Plan Description. The City provides medical, prescription drug, and vision benefits to eligible employees upon retirement in accordance with labor contracts. Employees that retire and are eligible to draw payment from the MERS retirement benefit program are eligible to receive benefits. Retirees of certain bargaining units are required to pay 50% of the fully-insured premiums. All other retirees are not required to pay any portion of the premiums. If covered, spouses of retirees are required to pay 100% of premiums.

Membership of the Plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	10
Active plan members	<u>23</u>
Total	<u><u>33</u></u>

In the June 30, 2016 actuarial valuation, the individual entry-age normal - level percent of pay actuarial cost method was used. The actuarial assumptions included a 2.62% investment rate of return, a 3.75% inflation rate, and an annual healthcare cost trend rate beginning at 7.5% and reducing to 4.5% after 10 years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2016 was 30 years.

Funding Policy. The City's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. Administrative costs of the plan are paid for by the City.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost was calculated based on the annual required contribution of the employer (ARC). 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 (or funding excess) over a period not to exceed 30 years.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

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:

Annual required contribution	\$ 336,152
Interest on net OPEB obligation	23,235
Adjustment to annual required contribution	<u>-</u>
Net OPEB cost	359,387
Contributions made	<u>(90,268)</u>
Increase in net OPEB obligation	269,119
Net OPEB obligation, beginning of year	<u>1,549,004</u>
Net OPEB obligation, end of year	<u><u>\$ 1,818,123</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 and the two previous fiscal years was as follows:

Three-Year Trend Information			
Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 359,089	17.6%	\$ 1,214,645
2015	391,295	14.6%	1,549,004
2016	359,387	25.1%	1,818,123

Funded Status and Funding Progress. As of June 30, 2016, the actuarial accrued liability for benefits was \$3,961,601, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$1,349,838 and the ratio of the UAAL to the covered payroll was 293.5 percent.

Actuarial Methods and Assumptions. The projection of future benefit payments for an ongoing plan involves 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 as required supplementary information following the notes to the financial statements, 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 calculations.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and 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 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.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

15. FUND BALANCES - GOVERNMENTAL FUNDS

Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable -			
Prepaid items	\$ 37,587	\$ 688	\$ 38,275
Restricted for:			
Major and local streets	-	285,472	285,472
Police and emergency services	-	20,424	20,424
Public improvement	-	163,650	163,650
Grants	-	24,600	24,600
Capital projects	-	101,656	101,656
Debt service	-	248,838	248,838
	-	844,640	844,640
Unassigned	1,892,302	-	1,892,302
Total fund balances - governmental funds	\$ 1,929,889	\$ 845,328	\$ 2,775,217

16. NET INVESTMENT IN CAPITAL ASSETS

Following is a summary of the City's net investment in capital assets as presented in the government-wide statement of net position:

	Governmental Activities	Business-type Activities	Total
Capital assets:			
Capital assets not being depreciated	\$ 94,501	\$ 30,000	\$ 124,501
Capital assets being depreciated, net	7,565,890	22,309,863	29,875,753
	7,660,391	22,339,863	30,000,254
Related debt:			
Total bonds, loans and other installment debt	440,000	10,542,860	10,982,860
Premium on bonds	-	768,003	768,003
	440,000	11,310,863	11,750,863
Net investment in capital assets	\$ 7,220,391	\$ 11,029,000	\$ 18,249,391

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

17. 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. Beginning January 1, 2000, 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 activity since January 1, 2000 is as follows:

Shortfall at July 1, 2015	\$ (1,160,206)
Current year building permit revenue	76,503
Related expenses - Direct costs	<u>(177,256)</u>
Cumulative shortfall at June 30, 2016	<u>\$ (1,260,959)</u>

18. JOINT VENTURE IN MILAN AREA FIRE DEPARTMENT

The Milan Area Fire Department (the "MAFD") is a legally separate entity, created through a joint venture between the City of Milan and London, Milan and York Townships and was established on July 1, 1980.

The percentage of each parties interest is calculated annually and is based on multiple factors including the taxable value of real and personal property within the MAFD district, service area, population, miles of roads and dwelling units.

Participating municipalities and their respective shares of ownership as of June 30, 2016 are as follows:

	Amount of Ownership	Percent of Ownership
City of Milan	\$ 543,732	41.6%
Milan Township	229,902	17.6%
York Township	320,028	24.5%
London Township	<u>213,869</u>	<u>16.3%</u>
Total	<u>\$ 1,307,531</u>	<u>100.0%</u>

The City of Milan is accounting for its investment in the Department as a joint venture in accordance with generally accepted accounting principles. Information presented below is taken from financial statements of the MAFD for the year ended June 30, 2016, audited by other auditors, whose report dated November 21, 2016, expressed an unmodified opinion on those statements.

CITY OF MILAN, MICHIGAN

Notes to Financial Statements

Summary information of the MAFD's activity for the year ended June 30, 2016 is as follows:

	Total MAFD
Total assets	\$ 1,330,298
Total liabilities	<u>22,767</u>
Net position	<u>\$ 1,307,531</u>
Revenues	\$ 583,527
Expenses	<u>(469,294)</u>
Change in net position	114,233
Net position, beginning of year	<u>1,193,298</u>
Net position, end of year	<u>\$ 1,307,531</u>

Complete financial statements for the MAFD may be obtained at the MAFD's administrative office located at 45 Wabash Street, Milan, MI 48160.

19. RESTATEMENTS

Beginning net position of business-type activities and the water and sewer enterprise fund decreased by \$1,407,579, and increased in governmental activities by the same amount, to allocate the net pension liability and related deferred outflows to the water and sewer enterprise fund. Also, beginning net position of business-type activities and the water and sewer enterprise fund decreased by \$269,527, and increased in governmental activities by the same amount, to allocate the net other postemployment benefit obligation to the water and sewer enterprise fund. Additionally, the beginning net position of business-type activities and the water and sewer enterprise fund decreased by \$124,803 to correct the amount reported as bond premium.

The beginning net position of the governmental activities was also increased by \$655,423 to eliminate deferred inflows of resources for unavailable special assessments, increased by \$326,418 to correct the recording of infrastructure accumulated depreciation and increased by \$500,049 to properly record the City's equity interest in a joint venture.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILAN, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

	For the Year Ended June 30,	
	2015	2016
Total pension liability		
Service cost	\$ 63,354	\$ 49,502
Interest on total pension liability	918,804	931,540
Difference between expected and actual experience	-	235,444
Assumption changes	-	575,166
Benefit payments	(791,587)	(850,110)
Net change in total pension liability	<u>190,571</u>	<u>941,542</u>
Total pension liability, beginning of year	<u>11,501,138</u>	<u>11,691,709</u>
Total pension liability, end of year	<u>11,691,709</u>	<u>12,633,251</u>
Plan fiduciary net position		
Employer contributions	545,439	573,759
Pension plan net investment income (loss)	367,094	(87,482)
Benefit payments and refunds	(791,587)	(850,110)
Pension plan administrative expense	(13,444)	(12,923)
Net change in plan fiduciary net position	<u>107,502</u>	<u>(376,756)</u>
Plan fiduciary net position, beginning of year	<u>5,903,099</u>	<u>6,010,601</u>
Plan fiduciary net position, end of year	<u>6,010,601</u>	<u>5,633,845</u>
Net pension liability	<u>\$ 5,681,108</u>	<u>\$ 6,999,406</u>
Plan fiduciary net position as a percentage of total pension liability	51.41%	44.60%
Covered employee payroll	<u>\$ 797,654</u>	<u>\$ 445,685</u>
Net pension liability as a percentage of covered employee payroll	712.23%	1570.48%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF MILAN, MICHIGAN

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ending June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll
2015	\$ 11,691,709	\$ 6,010,601	\$ 5,681,108	51.41%	\$ 797,654
2016	12,633,251	5,633,845	6,999,406	44.60%	445,685

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF MILAN, MICHIGAN

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as Percentage of Covered Payroll
2015	\$ 545,439	\$ 545,439	\$ -	\$ 797,654	68.38%
2016	603,895	603,895	-	598,537	100.90%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Notes Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	23 years
Asset valuation method	Open; 5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

CITY OF MILAN, MICHIGAN

Required Supplementary Information

Other Postemployment Benefits

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2009	\$ -	\$ 2,094,525	\$ 2,094,525	0.0%	Not available	Not available
7/1/2016	-	3,212,877	3,212,877	0.0%	\$ 1,208,698	265.8%
7/1/2016	-	3,961,601	3,961,601	0.0%	1,349,838	293.5%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2014	\$ 359,089	17.6%
2015	356,078	16.0%
2016	336,152	26.9%

This page intentionally left blank.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF MILAN, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue	Debt Service	Capital Projects	Totals
Assets				
Cash and investments	\$ 314,749	\$ 199,238	\$ 103,894	\$ 617,881
Accounts receivable	153,862	54,193	-	208,055
Special assessments receivable	195,793	316,396	-	512,189
Due from other governments	91,878	-	-	91,878
Prepaid items	688	-	-	688
Total assets	\$ 756,970	\$ 569,827	\$ 103,894	\$ 1,430,691
Liabilities				
Interfund payable	\$ 14,815	\$ -	\$ -	\$ 14,815
Accounts payable	50,566	4,593	2,238	57,397
Accrued payroll	962	-	-	962
Total liabilities	66,343	4,593	2,238	73,174
Deferred inflows of resources				
Unavailable revenue - special assessments	195,793	316,396	-	512,189
Fund balances				
Nonspendable	688	-	-	688
Restricted	494,146	248,838	101,656	844,640
Total fund balances	494,834	248,838	101,656	845,328
Total liabilities, deferred inflows of resources and fund balances	\$ 756,970	\$ 569,827	\$ 103,894	\$ 1,430,691

CITY OF MILAN, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2016

	Special Revenue	Debt Service	Capital Projects	Totals
Revenues				
State revenue	\$ 483,201	\$ -	\$ -	\$ 483,201
Local revenue	33,056	-	-	33,056
Charges for services	622,489	-	-	622,489
Special assessments	-	157,928	-	157,928
Other	23,749	-	304	24,053
Total revenues	1,162,495	157,928	304	1,320,727
Expenditures				
Current expenditures:				
General government	-	-	-	-
Public safety	26,992	-	-	26,992
Public works	888,684	-	-	888,684
Culture and recreation	14,968	-	-	14,968
Capital outlay	966,749	-	262,060	1,228,809
Debt service:				
Principal	-	175,000	-	175,000
Interest	-	28,901	-	28,901
Total expenditures	1,897,393	203,901	262,060	2,363,354
Revenues under expenditures	(734,898)	(45,973)	(261,756)	(1,042,627)
Other financing sources				
Transfers in	252,600	-	-	252,600
Net change in fund balances	(482,298)	(45,973)	(261,756)	(790,027)
Fund balances, beginning of year	977,132	294,811	363,412	1,635,355
Fund balances, end of year	\$ 494,834	\$ 248,838	\$ 101,656	\$ 845,328

CITY OF MILAN, MICHIGAN

Combining Balance Sheet Nonmajor Special Revenue Funds June 30, 2016

	Major Street	Local Street	Rubbish
Assets			
Cash and investments	\$ 15,773	\$ 189,419	\$ -
Accounts receivable	-	-	151,984
Special assessments receivable	-	-	-
Due from other governments	49,227	38,299	-
Prepaid items	344	344	-
Total assets	\$ 65,344	\$ 228,062	\$ 151,984
Liabilities			
Interfund payable	\$ -	\$ -	\$ 14,815
Accounts payable	5,100	1,184	44,282
Accrued payroll	481	481	-
Total liabilities	5,581	1,665	59,097
Deferred inflows of resources			
Unavailable revenue - special assessments	-	-	-
Fund balances			
Nonspendable	344	344	-
Restricted	59,419	226,053	92,887
Total fund balances	59,763	226,397	92,887
Total liabilities, deferred inflows of resources, and fund balances	\$ 65,344	\$ 228,062	\$ 151,984



Grant Fund	Uptown Village Special Assessment District	Police Reserve	911	Milan Youth Football	Total
\$ 24,600	\$ 68,885	\$ 10,070	\$ 6,002	\$ -	\$ 314,749
-	1,878	-	-	-	153,862
-	195,793	-	-	-	195,793
-	-	-	4,352	-	91,878
-	-	-	-	-	688
<u>\$ 24,600</u>	<u>\$ 266,556</u>	<u>\$ 10,070</u>	<u>\$ 10,354</u>	<u>\$ -</u>	<u>\$ 756,970</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,815
-	-	-	-	-	50,566
-	-	-	-	-	962
-	-	-	-	-	66,343
-	195,793	-	-	-	195,793
-	-	-	-	-	688
<u>24,600</u>	<u>70,763</u>	<u>10,070</u>	<u>10,354</u>	<u>-</u>	<u>494,146</u>
<u>24,600</u>	<u>70,763</u>	<u>10,070</u>	<u>10,354</u>	<u>-</u>	<u>494,834</u>
<u>\$ 24,600</u>	<u>\$ 266,556</u>	<u>\$ 10,070</u>	<u>\$ 10,354</u>	<u>\$ -</u>	<u>\$ 756,970</u>

CITY OF MILAN, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2016

	Major Street	Local Street	Rubbish
Revenues			
State revenue	\$ 299,340	\$ 183,861	\$ -
Local revenue	500	-	-
Charges for services	-	-	593,159
Other	3,211	2,070	-
Total revenues	303,051	185,931	593,159
Expenditures			
Current expenditures:			
General government	-	-	-
Public safety	-	-	-
Public works	184,556	148,950	555,178
Culture and recreation	-	-	-
Capital outlay	510,184	419,274	36,468
Total expenditures	694,740	568,224	591,646
Revenues over (under) expenditures	(391,689)	(382,293)	1,513
Other financing sources			
Transfers in	-	252,600	-
Net change in fund balances	(391,689)	(129,693)	1,513
Fund balances, beginning of year	451,452	356,090	91,374
Fund balances, end of year	\$ 59,763	\$ 226,397	\$ 92,887



Grant Fund	Uptown Village Special Assessment District	Police Reserve	911	Milan Youth Football	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 483,201
-	-	-	32,556	-	33,056
-	29,330	-	-	-	622,489
-	-	3,500	-	14,968	23,749
-	29,330	3,500	32,556	14,968	1,162,495
-	-	-	-	-	-
-	-	1,090	25,902	-	26,992
-	-	-	-	-	888,684
-	-	-	-	14,968	14,968
-	-	823	-	-	966,749
-	-	1,913	25,902	14,968	1,897,393
-	29,330	1,587	6,654	-	(734,898)
-	-	-	-	-	252,600
-	29,330	1,587	6,654	-	(482,298)
24,600	41,433	8,483	3,700	-	977,132
\$ 24,600	\$ 70,763	\$ 10,070	\$ 10,354	\$ -	\$ 494,834

CITY OF MILAN, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Nonmajor Special Revenue Funds

For the Year Ended June 30, 2016

	Major Streets		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
State revenue	\$ 328,100	\$ 299,340	\$ (28,760)
Local revenue	-	500	500
Charges for services	-	-	-
Interest	60	-	(60)
Other	-	3,211	3,211
Total revenues	328,160	303,051	(25,109)
Expenditures			
Current expenditures:			
General government	-	-	-
Public safety	-	-	-
Public works	235,510	184,556	(50,954)
Culture and recreation	-	-	-
Capital outlay	391,323	510,184	118,861
Total expenditures	626,833	694,740	67,907
Revenues over (under) expenditures	(298,673)	(391,689)	(93,016)
Other financing sources (uses)			
Transfers in	100,000	-	(100,000)
Transfers out	(40,000)	-	(40,000)
Total other financing sources (uses)	60,000	-	(60,000)
Net change in fund balances	(238,673)	(391,689)	(153,016)
Fund balances, beginning of year	451,452	451,452	-
Fund balances, end of year	\$ 212,779	\$ 59,763	\$ (153,016)

Local Streets			Rubbish		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ 103,115	\$ 183,861	\$ 80,746	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	564,000	593,159	29,159
40	-	(40)	-	-	-
500	2,070	1,570	-	-	-
<u>103,655</u>	<u>185,931</u>	<u>82,276</u>	<u>564,000</u>	<u>593,159</u>	<u>29,159</u>
-	-	-	-	-	-
-	-	-	-	-	-
189,929	148,950	(40,979)	549,079	555,178	6,099
-	-	-	-	-	-
<u>386,859</u>	<u>419,274</u>	<u>32,415</u>	<u>-</u>	<u>36,468</u>	<u>36,468</u>
<u>576,788</u>	<u>568,224</u>	<u>(8,564)</u>	<u>549,079</u>	<u>591,646</u>	<u>42,567</u>
<u>(473,133)</u>	<u>(382,293)</u>	<u>90,840</u>	<u>14,921</u>	<u>1,513</u>	<u>(13,408)</u>
305,580	252,600	(52,980)	-	-	-
-	-	-	-	-	-
<u>305,580</u>	<u>252,600</u>	<u>(52,980)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(167,553)	(129,693)	37,860	14,921	1,513	(13,408)
<u>356,090</u>	<u>356,090</u>	<u>-</u>	<u>91,374</u>	<u>91,374</u>	<u>-</u>
<u>\$ 188,537</u>	<u>\$ 226,397</u>	<u>\$ 37,860</u>	<u>\$ 106,295</u>	<u>\$ 92,887</u>	<u>\$ (13,408)</u>

continued...

CITY OF MILAN, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Nonmajor Special Revenue Funds

For the Year Ended June 30, 2016

	Grant Fund		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
State revenue	\$ -	\$ -	\$ -
Local revenue	-	-	-
Charges for services	-	-	-
Interest	-	-	-
Other	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Current expenditures:			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-
Fund balances, beginning of year	<u>24,600</u>	<u>24,600</u>	-
Fund balances, end of year	<u>\$ 24,600</u>	<u>\$ 24,600</u>	<u>\$ -</u>



Uptown Village Special Assessment District			Police Reserve		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
22,000	29,330	7,330	-	-	-
-	-	-	-	-	-
-	-	-	3,000	3,500	500
<u>22,000</u>	<u>29,330</u>	<u>7,330</u>	<u>3,000</u>	<u>3,500</u>	<u>500</u>
-	-	-	-	-	-
-	-	-	3,000	1,090	(1,910)
-	-	-	-	-	-
-	-	-	-	823	823
-	-	-	3,000	1,913	(1,087)
<u>22,000</u>	<u>29,330</u>	<u>7,330</u>	<u>-</u>	<u>1,587</u>	<u>1,587</u>
(22,000)	-	22,000	-	-	-
<u>(22,000)</u>	<u>-</u>	<u>22,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	29,330	29,330	-	1,587	1,587
<u>41,433</u>	<u>41,433</u>	<u>-</u>	<u>8,483</u>	<u>8,483</u>	<u>-</u>
<u>\$ 41,433</u>	<u>\$ 70,763</u>	<u>\$ 29,330</u>	<u>\$ 8,483</u>	<u>\$ 10,070</u>	<u>\$ 1,587</u>

continued...

CITY OF MILAN, MICHIGAN

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Nonmajor Special Revenue Funds

For the Year Ended June 30, 2016

	911		
	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
State revenue	\$ -	\$ -	\$ -
Local revenue	31,100	32,556	1,456
Charges for services	-	-	-
Interest	30	-	(30)
Other	-	-	-
Total revenues	31,130	32,556	1,426
Expenditures			
Current expenditures:			
General government	-	-	-
Public safety	31,030	25,902	(5,128)
Public works	-	-	-
Culture and recreation	-	-	-
Capital outlay	-	-	-
Total expenditures	31,030	25,902	(5,128)
Revenues over (under) expenditures	100	6,654	6,554
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	100	6,654	6,554
Fund balances, beginning of year	3,700	3,700	-
Fund balances, end of year	<u>\$ 3,800</u>	<u>\$ 10,354</u>	<u>\$ 6,554</u>



Milan Youth Football		
Final Budget	Actual	Actual Over (Under) Final Budget
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
19,700	14,968	(4,732)
<u>19,700</u>	<u>14,968</u>	<u>(4,732)</u>
-	-	-
-	-	-
-	-	-
17,750	14,968	(2,782)
-	-	-
<u>17,750</u>	<u>14,968</u>	<u>(2,782)</u>
<u>1,950</u>	<u>-</u>	<u>(1,950)</u>
-	-	-
-	-	-
-	-	-
1,950	-	(1,950)
-	-	-
<u>\$ 1,950</u>	<u>\$ -</u>	<u>\$ (1,950)</u>

concluded.

CITY OF MILAN, MICHIGAN

Combining Balance Sheet Nonmajor Debt Service Funds June 30, 2016

	Northside Special Assessment	Arkona Road Special Assessment	Southside Special Assessment	Total
Assets				
Cash and investments	\$ 32,434	\$ 14,444	\$ 152,360	\$ 199,238
Accounts receivable	492	53,701	-	54,193
Special assessments receivable	30,643	158,194	127,559	316,396
Total assets	\$ 63,569	\$ 226,339	\$ 279,919	\$ 569,827
Liabilities				
Accounts payable	\$ 1,803	\$ 481	\$ 2,309	\$ 4,593
Deferred inflows of resources				
Unavailable revenue - special assessments	30,643	158,194	127,559	316,396
Fund balances				
Restricted	31,123	67,664	150,051	248,838
Total liabilities, deferred inflows of resources and fund balances	\$ 63,569	\$ 226,339	\$ 279,919	\$ 569,827

CITY OF MILAN, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Debt Service Funds

For the Year Ended June 30, 2016

	Northside Special Assessment	Arkona Road Special Assessment	Southside Special Assessment	Total
Revenues				
Special assessments	\$ 21,947	\$ 96,256	\$ 39,725	\$ 157,928
Expenditures				
Debt service:				
Principal	25,000	95,000	55,000	175,000
Interest	3,943	12,415	12,543	28,901
Total expenditures	28,943	107,415	67,543	203,901
Net change in fund balances	(6,996)	(11,159)	(27,818)	(45,973)
Fund balances, beginning of year	38,119	78,823	177,869	294,811
Fund balances, end of year	\$ 31,123	\$ 67,664	\$ 150,051	\$ 248,838

CITY OF MILAN, MICHIGAN

Combining Balance Sheet Nonmajor Capital Projects Funds June 30, 2016

	Capital Improvement	Pavilion Capital Project	Total
Assets			
Cash and investments	\$ 35,817	\$ 68,077	\$ 103,894
Liabilities			
Accounts payable	\$ -	\$ 2,238	\$ 2,238
Fund balances			
Restricted	35,817	65,839	101,656
Total liabilities and fund balances	\$ 35,817	\$ 68,077	\$ 103,894

CITY OF MILAN, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds

For the Year Ended June 30, 2016

	Capital Improvement	Pavilion Capital Project	Total
Revenue			
Other	\$ -	\$ 304	\$ 304
Expenditures			
Capital outlay	241,059	21,001	262,060
Net change in fund balances	(241,059)	(20,697)	(261,756)
Fund balances, beginning of year	276,876	86,536	363,412
Fund balances, end of year	<u>\$ 35,817</u>	<u>\$ 65,839</u>	<u>\$ 101,656</u>

CITY OF MILAN, MICHIGAN

Combining Statement of Net Position

Nonmajor Enterprise Funds

June 30, 2016

	Storm Sewer	Mooreville Sewer	Total
Assets			
Cash and investments	\$ 42,467	\$ 2,763	\$ 45,230
Due from other governments	32,226	-	32,226
	<hr/>	<hr/>	<hr/>
Total assets	74,693	2,763	77,456
	<hr/>	<hr/>	<hr/>
Net position			
Unrestricted	\$ 74,693	\$ 2,763	\$ 77,456
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF MILAN, MICHIGAN

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Nonmajor Enterprise Funds

For the Year Ended June 30, 2016

	Storm Sewer	Mooreville Sewer	Total
Operating revenues			
Charges for services	\$ -	\$ -	\$ -
Operating expenses			
Contractual services	35,806	-	35,806
Operating loss	(35,806)	-	(35,806)
Nonoperating revenues			
State revenue	32,226	-	32,226
Interest revenue	-	24	24
Total nonoperating revenues	32,226	24	32,250
Income (loss) before capital contributions	(3,580)	24	(3,556)
Capital contributions	9,600	-	9,600
Change in net position	6,020	24	6,044
Net position, beginning of year	68,673	2,739	71,412
Net position, end of year	\$ 74,693	\$ 2,763	\$ 77,456

This page intentionally left blank.

CITY OF MILAN, MICHIGAN

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the Year Ended June 30, 2016

	Storm Sewer	Mooreville Sewer	Total
Cash flows from operating activities			
Payments to suppliers and contractors	\$ (35,806)	\$ -	\$ (35,806)
Cash flows from capital and related financing activities			
Proceeds from capital contributions	9,600	-	9,600
Cash flows from investing activities			
Interest earnings on investments	-	24	24
Net change in cash and investments	(26,206)	24	(26,182)
Cash and investments, beginning of year	68,673	2,739	71,412
Cash and investments, end of year	<u>\$ 42,467</u>	<u>\$ 2,763</u>	<u>\$ 45,230</u>
Cash flows from operating activities			
Operating income loss	<u>\$ (35,806)</u>	<u>\$ -</u>	<u>\$ (35,806)</u>

CITY OF MILAN, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2016

	Delinquent Tax Fund	Mobile Home Specific Tax	Payroll Clearing Fund
Assets			
Cash and investments	\$ 37,392	\$ 1,000	\$ 4,121
Liabilities			
Accounts payable	\$ 18,605	\$ 802	\$ 4,121
Due to other governments	18,787	198	-
Total liabilities	\$ 37,392	\$ 1,000	\$ 4,121



Trust and Agency	Total
<u>\$ 12,828</u>	<u>\$ 55,341</u>
\$ 12,828	\$ 36,356
-	18,985
<u>\$ 12,828</u>	<u>\$ 55,341</u>

This page intentionally left blank.

INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank.

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

December 28, 2016

To the Honorable Mayor and
Members of the City Council
City of Milan, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Milan, Michigan* (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

City of Milan's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Lehmann Lobson LLC".

CITY OF MILAN, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2016

2016-001 - Prior Period Adjustments

Finding Type. Material weakness in internal control over financial reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. Prior period adjustments were necessary to properly allocate beginning balances for the other postemployment benefit obligation and the net pension liability and related deferred outflows between governmental activities and business-type activities. In addition, prior period adjustments were necessary to correctly report the unamortized bond premium for the 2015 capital improvement sewer refunding bonds in the water and sewer enterprise fund/business-type activities. In governmental activities, the beginning net position was restated to report the City's equity interest in the Milan Area Fire Department, to properly eliminate deferred inflows of resources related to unavailable special assessments receivable, and to correct accumulated depreciation on infrastructure assets.

Cause. In prior years, the City did not appropriately apply GAAP while implementing new and existing standards.

Effect. The City's records and the prior year financial statements were initially misstated by amounts material to the financial statements, for which appropriate correcting entries have been recorded by management.

Recommendation. We recommend that the City implement procedures to verify that all supporting schedules are calculated based on appropriate information and any adjustments are properly reflected in the accounting records.

View of Responsible Officials. The City experienced a change of management in the Treasury and Finance Department during fiscal year 2016. Many supporting documents and schedules from the prior years were reviewed and determined as incorrect and insufficient. Management has implemented procedures to verify all beginning year balances are supported and correct and any adjustments, if needed, are properly reflected in the accounting records.

CITY OF MILAN, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2016

2016-002 - Timely Year-end Closing and Workpaper Preparation

Finding Type. Material weakness in internal control over financial reporting.

Criteria. The timely preparation and issuance of financial statements in accordance with generally accepted accounting principles requires a coordinated effort between management and the external auditors. This places the burden on the auditee to properly prepare for the audit, including timely closing of the accounting records, preparation of workpapers to support the significant account balances and obtaining the necessary documents needed to perform their procedures.

Condition. The City was not fully prepared for the audit at the scheduled beginning of fieldwork in September or the rescheduled beginning of fieldwork in November. Year-end reconciliations and closing entries were not complete at the start of the audit. Properly reconciled support schedules were not provided until the second week of December for governmental and business-type activity capital assets. In addition, a draft of the other postemployment benefit obligation actuary report was not provided until December 21, 2016, and the final actuary report was not provided until December 23, 2016.

Cause. During the year, the City experienced employee turnover, including a bookkeeper and treasurer, resulting in significant delays in year-end closing and workpaper preparation, ultimately delaying the issuance of the financial statements.

Effect. As a result of these conditions, management was unable to timely close the accounting records and prepare for the audit, resulting in significant delays in the issuance of the financial statements.

Recommendation. We recommend that the City develop and adhere to (with appropriate oversight) a written plan with detailed tasks and completion points for the timely completion of year-end closing procedures to ensure timely issuance of the financial statements.

View of Responsible Officials. The City experienced a change of management and staffing in the Treasury and Finance Department during fiscal year 2016. The City also experienced a change in audit firms as well as Other Post Employment Benefit actuarial firms which resulted in an increase in time spent developing the background knowledge of the City from both newly engaged parties. Management has developed a written plan with detailed tasks and completion points for the timely completion of year-end closing procedures.

