

**CITY OF PINCONNING**  
BAY COUNTY  
STATE OF MICHIGAN

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2017

CITY OF PINCONNING  
BAY COUNTY  
STATE OF MICHIGAN

FINANCIAL STATEMENTS  
FISCAL YEAR ENDED June 30, 2017

**CITY OFFICIALS - As of June 30, 2017**

Mayor	Jason Brazeau
Council Member	Jennifer DeLorge
Council Member	Sherrri Boettcher
Council Member	Brian Saha
Council Member	Rebecca Coyer
Council Member	Gerald Gibson
Council Member	Ann LaPorte
Treasurer	Dawn Hoder
Clerk	Yvonne Broderick
Attorney	Brian Elder
Police Chief	Thomas Tober
City Manager	Dawn Hoder

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1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

**CERTIFIED PUBLIC ACCOUNTANTS**

*Partners:*  
Timothy J. Quast, C.P.A.  
David G. Gwizdala, C.P.A.

*Members:*  
American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s

## **INDEPENDENT AUDITOR'S REPORT**

To the City Council  
The City of Pinconning  
208 Manitou Street  
Pinconning, Michigan 48650

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

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

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

### **Auditor's Responsibility**

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

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

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

To the City Council  
The City of Pinconning

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and employer contributions, and budgetary comparison information 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 of Pinconning's basic financial statements. The combining and individual nonmajor fund financial statements, general fund detail, and indebtedness schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

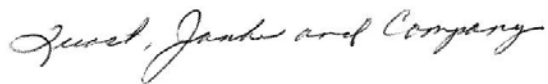
The general fund detail of expenditures, budgetary comparison schedules, DDA reconciliation of statement of revenues, expenditures and changes in fund balance to statement of activities, DDA balance sheet, DDA reconciliation of balance sheet to statement of net position, and the indebtedness schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, general fund detail of expenditures, and indebtedness schedules are fairly stated in all material respects in relation to the basic financial statements as a whole

To the City Council  
The City of Pinconning

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of the City of Pinconning's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pinconning's internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
February 8, 2018



1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

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

To the City Council  
The City of Pinconning  
208 Manitou Street  
Pinconning, MI 48650

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Pinconning, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Pinconning's basic financial statements, and have issued our report thereon dated February 8, 2018.

**Internal Control over Financial Reporting**

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

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 responses as items 2017-001, 2017-002 and 2017-003 to be material weaknesses.



To the City Council  
The City of Pinconning

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2017-004 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Pinconning'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-005, 2017-006, 2017-007, 2017-008 and 2017-009.

### **Purpose of this Report**

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

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
February 8, 2018

CITY OF PINCONNING  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017

This section of the City of Pinconning's annual Financial Report presents Management's Discussion and Analysis (MD&A) of the City's financial activities during the fiscal year ended June 30, 2017. The analysis focuses on the City's financial performance as a whole. Please read it in conjunction with the City's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the City of Pinconning exceeded liabilities and deferred inflows at June 30, 2017, by \$ 2,048,223.66. Of this amount \$ (159,371.72) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$ 71,096.42 during the year. Of this amount the net position of our governmental activities increased by \$ 152,463.39 and the net position of our business-type activities decreased by \$ (81,336.97).

**USING THIS REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

- *Management's Discussion and Analysis (MD&A)* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Government-wide Financial Statements* consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.
- *Fund Financial Statements* tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statement report the City's operations in more detail than the Government-wide Statements by providing information about the most significant funds.
- *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- *Required Supplementary Information*, other than MD&A, provides information about the required budgetary comparison information and pension funding progress.
- *Other Supplementary Information* provides detailed information about the General Fund and Debt Schedules.

**REPORTING THE CITY AS A WHOLE**

The *Statement of Net Position*, the *Statement of Activities* and the *Government-wide Statements* report information about the City as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Position* includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The *Statement of Net Position* and the *Statement of Activities* report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net position, which is the difference between assets and liabilities, as one way to measure

CITY OF PINCONNING  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017

the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business-Type Activities** - This activity includes the water and sewer operations. This activity is financed primarily by user charges.

## REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The *Fund Financial Statements* provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has three kinds of funds:

### Governmental Funds

The *Governmental Funds* account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental Funds include the General Fund; Special Revenue Funds such as Major Street, Local Street and a discretely presented component unit, the Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

The Government Fund Statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The financial statements required for Governmental Funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

### Proprietary Funds

*Proprietary Funds* account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund and the Business-Type Activities included in the Government-wide Statement is the detail and additional information, such as cash flows, provided in the Proprietary

CITY OF PINCONNING  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017

Fund Statements. The Enterprise Fund includes the Water and Sewer Fund, and is considered to be a major fund of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows.

**Fiduciary Funds**

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support City programs. The reporting focus is on net position and changes in net position, and is reported using accounting principles similar to Proprietary Funds. The City's Fiduciary Funds are presented in the Fiduciary Fund financial statements by type, Tax Collection Fund. Because by definition these assets are being held for the benefit of a third party, pension participants and other local governments, and cannot be used to address activities or obligations of the government, these funds are not incorporated into the Government-Wide Statements.

**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as useful indicator of financial position. The following analysis shows the City's total changes in net position at June 30, 2017 and 2016.

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets						
Current and other assets	\$ 1,229,035	\$ 1,001,300	\$ 206,156	\$ 215,434	\$ 1,435,191	\$ 1,216,735
Capital assets net of accumulated depreciation	<u>643,116</u>	<u>676,725</u>	<u>3,423,742</u>	<u>3,561,851</u>	<u>4,066,858</u>	<u>4,238,575</u>
Total Assets	1,872,151	1,678,025	3,629,897	3,777,285	5,502,049	5,455,310
Deferred outflows of resources	110,313	191,639	12,257	21,293	122,570	212,932
LIABILITIES						
Current liabilities	45,467	118,763	38,253	117,047	83,720	235,810
Long-term liabilities	<u>987,127</u>	<u>953,494</u>	<u>2,505,548</u>	<u>2,501,811</u>	<u>3,492,675</u>	<u>3,455,305</u>
Total Liabilities	1,032,594	1,072,257	2,543,801	2,618,858	3,576,395	3,691,115
NET POSITION						
Invested in capital assets net of related debt	643,116	676,725	982,920	951,216	1,626,036	1,627,940
Restricted	350,801	30,325	230,758	189,714	581,560	220,039
Unrestricted	<u>(44,047)</u>	<u>90,357</u>	<u>(115,325)</u>	<u>38,791</u>	<u>(159,372)</u>	<u>129,148</u>
Total Net Position	\$ <u>949,870</u>	\$ <u>797,407</u>	\$ <u>1,098,353</u>	\$ <u>1,179,721</u>	\$ <u>2,048,224</u>	\$ <u>1,977,127</u>

The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net position, the part of net position that can be used to finance day-to-day operations

**CITY OF PINCONNING**  
**Bay County, Michigan**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2017**

without constraints established by debt covenants, legislation, or other legal requirements is approximately \$ (159,371.72).

The following analysis provides the changes in the net position for the City's Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>REVENUES</b>						
Charges for services	\$ 73,250	\$ 89,622	\$ 706,838	\$ 623,776	\$ 780,088	\$ 713,398
Operating grants and contributions	201,076	215,663	0	0	201,076	215,663
Capital grants and contributions	221,760	0	0	0	221,760	0
<b>GENERAL REVENUES</b>						
Property taxes	440,146	447,060	0	0	440,146	447,060
State shared revenue	133,425	127,135	0	0	133,425	127,135
Unrestricted investment earnings	3,403	2,370	3,051	1,775	6,454	4,144
Transfers	0	(36,853)	0	36,853	0	0
<b>Total Revenues</b>	<b>1,073,060</b>	<b>844,997</b>	<b>709,889</b>	<b>662,404</b>	<b>1,782,949</b>	<b>1,507,401</b>
<b>PROGRAM EXPENSES</b>						
Legislative	14,357	11,183	0	0	14,357	11,183
General government	304,121	210,683	0	0	304,121	210,683
Public safety	237,358	204,704	0	0	237,358	204,704
Health and welfare	1,438	14,027	0	0	1,438	14,027
Public works and streets	343,810	477,258	0	0	343,810	477,258
Recreation and cultural	19,512	11,694	0	0	19,512	11,694
Unallocated	0	87,295	0	0	0	87,295
Water and sewer	0	0	791,256	722,419	791,256	722,419
<b>Total Expenses</b>	<b>920,596</b>	<b>1,016,844</b>	<b>791,256</b>	<b>722,419</b>	<b>1,711,852</b>	<b>1,739,263</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ 152,463</b>	<b>\$ (171,847)</b>	<b>\$ (81,367)</b>	<b>\$ (60,015)</b>	<b>\$ 71,096</b>	<b>\$ (231,862)</b>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Pinconning completed its year, its Governmental Funds reported total fund balances of \$ 1,128,368.17 which is more than the \$ 827,337.29 total fund balance at June 30, 2016.

- The General Fund, the operating fund for the City, ended fiscal year 2017 with a \$ 777,566.78 balance compared to the prior year ending fund balance of \$ 797,011.97.
- Major Street Fund Balance increased by \$ 284,693.24.
- Local Street Fund Balance increased by \$ 35,782.83.

**INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

As the City of Pinconning completed its year, its Business-Type Funds reported total net position of \$ 1,098,353.42, which is less than the \$ 1,179,720.39 total net position at June 30, 2016.

CITY OF PINCONNING  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017

**BUDGETARY HIGHLIGHTS**

During the year ended June 30, 2017, the City amended the budget one (1) time. The amendment was done to cover unbudgeted expenditures and to cover street renovations started during the year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for Governmental Activities totaled \$ 643,116.07 (net of accumulated depreciation) at June 30, 2017. Capital assets for Business-type Activities totaled \$ 3,423,741.62 (net of accumulated depreciation) at June 30, 2017. See the Note 4 of the Financial Statements for more information about the City's capital assets.

**LONG-TERM DEBT**

At year end the City had \$ 2,402,000 in outstanding revenue bonds. All debt is in the business-type activities and is detailed below:

Sewer Fund

Revenue Bond issued to improve, enlarge and extend the City's water and sewer system.

Original issue 1996 – Series A	\$ 2,511,000
Balance June 30, 2016	1,990,000
Balance June 30, 2017	1,885,000
Original issue 2002 – Series A	544,000
Balance June 30, 2016	492,000
Balance June 30, 2017	486,000
Original issue 2002 – Series B	47,000
Balance June 30, 2016	32,000
Balance June 30, 2017	31,000

CITY OF PINCONNING  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2017

**ECONOMIC FACTORS**

Our elected officials consider many factors when setting the City's 2017 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. The City's Council has tried to spend conservatively. Costs for health care, insurance and utilities continue to rise. The City maintains its facilities but struggles to provide services to its citizens at the same level as past years. Growth in the City has been slow but the City hopes for new business and industry. Expanding our tax base past single-family homes and increasing water and sewer users is a prime objective.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact Administration at the City of Pinconning, 208 Manitou, P.O. Box 628, Pinconning, MI 48650.

CITY OF PINCONNING  
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET POSITION  
June 30, 2017

	Primary Government			
	Governmental Activities	Business -Type Activities	Total	Component Unit
<b>ASSETS:</b>				
Cash	\$ 1,107,351.21	\$ 34,569.95	\$ 1,141,921.16	\$ 100,706.12
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	74,438.98	167,414.11	241,853.09	0.00
Internal balances	0.00	0.00	0.00	0.00
Inventory	0.00	4,171.69	4,171.69	0.00
Receivable from state	47,244.96	0.00	47,244.96	0.00
Due from primary government	0.00	0.00	0.00	8,281.08
Capital assets:				
Land	25,000.00	50,000.00	75,000.00	5,000.00
Buildings and improvements	955,204.00	3,452,333.64	4,407,537.64	140,015.91
Construction in progress	0.00	0.00	0.00	0.00
Infrastructure	637,852.91	0.00	637,852.91	0.00
Equipment	667,460.08	213,779.45	881,239.53	3,100.00
Water and sewer systems	0.00	2,897,948.90	2,897,948.90	0.00
Accumulated depreciation	<u>(1,642,400.92)</u>	<u>(3,190,320.37)</u>	<u>(4,832,721.29)</u>	<u>(54,140.89)</u>
Total Assets	1,872,151.22	3,629,897.37	5,502,048.59	202,962.22
DEFERRED OUTFLOWS OF RESOURCES	110,313.00	12,257.00	122,570.00	0.00
<b>LIABILITIES:</b>				
Accounts payable	18,084.32	8,436.20	26,520.52	0.00
Accrued expenses	19,101.58	29,816.75	48,918.33	0.00
Due to other funds	0.00	0.00	0.00	0.00
Due to component unit	8,281.08	0.00	8,281.08	0.00
Customer deposits	55,200.00	0.00	55,200.00	0.00
Net pension liability	931,927.00	103,548.00	1,035,475.00	0.00
Notes and bonds payable				
Amount due within one year	0.00	72,000.00	72,000.00	0.00
Amount due more than one year	<u>0.00</u>	<u>2,330,000.00</u>	<u>2,330,000.00</u>	<u>0.00</u>
Total Liabilities	1,032,593.98	2,543,800.95	3,576,394.93	0.00
<b>NET POSITION:</b>				
Investment in capital assets net of related debt	643,116.07	982,919.69	1,626,035.76	93,975.02
Restricted major and local streets	350,801.39	0.00	350,801.39	0.00
Restricted for debt service	0.00	181,000.00	181,000.00	0.00
Unrestricted	<u>(44,047.22)</u>	<u>(65,566.27)</u>	<u>(109,613.49)</u>	<u>108,987.20</u>
Total Net Position	<u>\$ 949,870.24</u>	<u>\$ 1,098,353.42</u>	<u>\$ 2,048,223.66</u>	<u>\$ 202,962.22</u>

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



CITY OF PINCONNING  
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions	Governmental Activities	Business-Type Activities	Total	
<b>PRIMARY GOVERNMENT:</b>								
<b>GOVERNMENTAL ACTIVITIES:</b>								
Legislative	\$ 14,356.61	\$ 0.00	\$ 0.00	\$ 0.00	\$ (14,356.61)	\$ 0.00	\$ (14,356.61)	\$ 0.00
General government	304,121.39	21,240.05	58,327.00	0.00	(224,554.34)	0.00	(224,554.34)	0.00
Public safety	237,358.07	34,575.65	1,664.30	0.00	(201,118.12)	0.00	(201,118.12)	0.00
Health and Welfare	1,438.42	0.00	0.00	0.00	(1,438.42)	0.00	(1,438.42)	0.00
Streets and highways	78,410.72	0.00	362,844.76	0.00	284,434.04	0.00	284,434.04	0.00
Public works	265,398.94	17,433.93	0.00	0.00	(247,965.01)	0.00	(247,965.01)	0.00
Recreation and cultural	19,512.00	0.00	0.00	0.00	(19,512.00)	0.00	(19,512.00)	0.00
Total governmental activities	920,596.15	73,249.63	422,836.06	0.00	(424,510.46)	0.00	(424,510.46)	0.00
<b>BUSINESS-TYPE ACTIVITIES</b>								
Water	198,901.10	214,178.29	0.00	0.00	0.00	15,277.19	15,277.19	0.00
Sewer	592,355.13	492,659.79	0.00	0.00	0.00	(99,695.34)	(99,695.34)	0.00
Total Business-Type Activities	791,256.23	706,838.08	0.00	0.00	0.00	(84,418.15)	(84,418.15)	0.00
Total Primary Government	\$ <u>1,711,852.38</u>	\$ <u>780,087.71</u>	\$ <u>422,836.06</u>	\$ <u>0.00</u>	(424,510.46)	(84,418.15)	(508,928.61)	0.00
<b>COMPONENT UNIT:</b>								
Downtown Development Authority	<u>52,163.93</u>	<u>250.00</u>	<u>0.00</u>	<u>0.00</u>				(51,913.93)
<b>GENERAL PURPOSE REVENUES:</b>								
Property taxes - operating					363,718.46	0.00	363,718.46	54,117.88
Property taxes - refuse					76,427.60	0.00	76,427.60	0.00
State shared revenues					133,425.00	0.00	133,425.00	0.00
Unrestricted investment earnings					3,402.79	3,051.18	6,453.97	135.17
Transfers					0.00	0.00	0.00	0.00
Total General Purpose Revenues and Transfers					<u>576,973.85</u>	<u>3,051.18</u>	<u>580,025.03</u>	<u>54,253.05</u>
Change in Net Position					152,463.39	(81,366.97)	71,096.42	2,339.12
Net Position - Beginning of Year					<u>797,406.85</u>	<u>1,179,720.39</u>	<u>1,977,127.24</u>	<u>200,623.10</u>
Net Position - End of Year					\$ <u>949,870.24</u>	\$ <u>1,098,353.42</u>	\$ <u>2,048,223.66</u>	\$ <u>202,962.22</u>

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

CITY OF PINCONNING  
Bay County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2017

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
<b>ASSETS:</b>				
Cash	\$ 780,954.78	\$ 291,501.30	\$ 34,895.13	\$ 1,107,351.21
Delinquent taxes receivable	0.00	0.00	0.00	0.00
Other receivables	55,200.00	0.00	0.00	55,200.00
Current taxes receivable	0.00	0.00	0.00	0.00
Due from other current tax	19,238.98	0.00	0.00	19,238.98
Due from state	22,840.00	18,227.70	6,177.26	47,244.96
Total Assets	\$ 878,233.76	\$ 309,729.00	\$ 41,072.39	\$ 1,229,035.15
 <b>LIABILITIES:</b>				
Accounts payable	\$ 18,084.32	\$ 0.00	\$ 0.00	\$ 18,084.32
Unearned revenue	55,200.00	0.00	0.00	55,200.00
Accrued expenses	19,101.58	0.00	0.00	19,101.58
Due to component unit	8,281.08	0.00	0.00	8,281.08
Due to other funds	0.00	0.00	0.00	0.00
Total Liabilities	100,666.98	0.00	0.00	100,666.98
 <b>FUND BALANCES:</b>				
Nonspendable	0.00	0.00	0.00	0.00
Restricted for capital projects	0.00	0.00	0.00	0.00
Restricted for streets	0.00	309,729.00	41,072.39	350,801.39
Assigned	0.00	0.00	0.00	0.00
Unassigned	777,566.78	0.00	0.00	777,566.78
Total Fund Balances	777,566.78	309,729.00	41,072.39	1,128,368.17
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 878,233.76</b>	<b>\$ 309,729.00</b>	<b>\$ 41,072.39</b>	<b>\$ 1,229,035.15</b>

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

CITY OF PINCONNING  
Bay County, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION  
June 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,128,368.17
Amounts reported for Governmental Activities in the Statement of Net Position are different because -		
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:		
Capital assets at cost		2,285,516.99
Accumulated depreciation		(1,642,400.92)
Deferred outflow of resources		110,313.00
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds		
Net pension liability		(931,927.00)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>949,870.24</u>

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

CITY OF PINCONNING  
Bay County, Michigan

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
June 30, 2017

	GENERAL	MAJOR STREETS	LOCAL STREETS	TOTAL
<b>REVENUES:</b>				
Taxes	\$ 454,211.02	\$ 0.00	\$ 0.00	\$ 454,211.02
State and federal grants	133,425.00	94,230.03	46,854.73	274,509.76
Intergovernmental other	59,991.30	221,760.00	0.00	281,751.30
License and permits	4.00	0.00	0.00	4.00
Charges for services	39,256.47	0.00	0.00	39,256.47
Interest and rentals	23,326.99	0.00	0.00	23,326.99
Other revenue	0.00	0.00	0.00	0.00
	710,214.78	315,990.03	46,854.73	1,073,059.54
<b>Total Revenues</b>				
<b>EXPENDITURES:</b>				
Legislative	11,041.62	0.00	0.00	11,041.62
General government	222,687.28	0.00	0.00	222,687.28
Public safety	178,196.21	0.00	0.00	178,196.21
Health and welfare	1,438.42	0.00	0.00	1,438.42
Public works	204,117.48	11,296.79	31,071.90	246,486.17
Cultural and recreation	11,581.57	0.00	0.00	11,581.57
Capital outlay	13,975.00	0.00	0.00	13,975.00
Unallocated	86,622.39	0.00	0.00	86,622.39
	729,659.97	11,296.79	31,071.90	772,028.66
<b>Total Expenditures</b>				
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(19,445.19)	304,693.24	15,782.83	301,030.88
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from other funds	0.00	0.00	20,000.00	20,000.00
Transfer to other funds	0.00	(20,000.00)	0.00	(20,000.00)
	0.00	(20,000.00)	20,000.00	0.00
<b>Total Other Financing Sources (Uses)</b>				
<b>NET CHANGE IN FUND BALANCES</b>	(19,445.19)	284,693.24	35,782.83	301,030.88
<b>FUND BALANCE - July 1, 2016</b>	797,011.97	25,035.76	5,289.56	827,337.29
<b>FUND BALANCE - June 30, 2017</b>	\$ 777,566.78	\$ 309,729.00	\$ 41,072.39	\$ 1,128,368.17

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

CITY OF PINCONNING  
Bay County, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 301,030.88

Amounts reported for Governmental Activities in the Statement  
of Activities are different because -

Governmental Funds report capital outlays as expenditures  
while in the statement of activities, these costs are allocated  
over their estimated lives as depreciation expense.

Depreciation expense (47,583.49)  
Capital asset purchases capitalized 13,975.00

Pension expense (114,959.00)

Repayment of debt principal is an expenditure in the Governmental  
Funds, the repayment does not have an effect in the Statement  
of Activities but does reduce the debt balance in the Statement  
of Net Position.

Principal payments on long-term debt 0.00

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 152,463.39

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

CITY OF PINCONNING  
Bay County, Michigan

PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
WATER AND SEWER FUNDS  
June 30, 2017

	Major Enterprise Funds		Business-Type Activities Total
<u>ASSETS:</u>	Water Fund	Sewer Fund	Total
<b>Current Assets:</b>			
Common cash account	30,798.27	(177,228.32)	(146,430.05)
Accounts receivable	49,075.61	118,338.50	167,414.11
Inventory	0.00	4,171.69	4,171.69
Prepays	0.00	0.00	0.00
Total Current Assets	79,873.88	(54,718.13)	25,155.75
<b>Noncurrent Assets:</b>			
USDA RD 1996 Bond reserve	0.00	145,000.00	145,000.00
USDA RD 2002 bond reserve	0.00	36,000.00	36,000.00
<b>Capital Assets:</b>			
Buildings and Improvements	0.00	3,502,333.64	3,502,333.64
Equipment	11,138.05	202,641.40	213,779.45
Water and sewer systems	1,143,647.65	1,754,301.25	2,897,948.90
Accumulated depreciation	(690,218.06)	(2,500,102.31)	(3,190,320.37)
Total Capital Assets	464,567.64	2,959,173.98	3,423,741.62
Total Noncurrent Assets	464,567.64	3,140,173.98	3,604,741.62
Total Assets	544,441.52	3,085,455.85	3,629,897.37
<b>DEFERRED OUTFLOW OF RESOURCES</b>	3,064.00	9,193.00	12,257.00
<b><u>LIABILITIES:</u></b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 1,796.88	\$ 6,639.32	\$ 8,436.20
Due to General Fund	0.00	0.00	0.00
Accrued expenses	6,812.99	23,003.76	29,816.75
Revenue bonds payable	0.00	72,000.00	72,000.00
Total Current Liabilities	8,609.87	101,643.08	110,252.95
<b>Noncurrent Liabilities:</b>			
Net pension liability	25,887.00	77,661.00	103,548.00
Revenue bonds payable	0.00	2,330,000.00	2,330,000.00
Total Noncurrent Liabilities	25,887.00	2,407,661.00	2,433,548.00
Total Liabilities	34,496.87	2,509,304.08	2,543,800.95
<b><u>NET POSITION:</u></b>			
Invested in capital assets net of related debt	425,745.71	557,173.98	982,919.69
Restricted for debt retirement	0.00	181,000.00	181,000.00
Unrestricted	87,262.94	(152,829.21)	(65,566.27)
Total Net Position	\$ 513,008.65	\$ 585,344.77	\$ 1,098,353.42

Reconciliation of Government-Wide Statement of Net Position:

Net Position of Business-Type Activities	\$ 1,098,353.42
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The accompanying notes are an integral part of the financial statements.

CITY OF PINCONNING  
Bay County, Michigan

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
WATER AND SEWER FUNDS  
Year Ended June 30, 2017

OPERATING REVENUES:	Major Enterprise Funds		Business-Type
	Water Fund	Sewer Fund	Activities Total
Charges for Services -			
Water charges	\$ 209,161.74	\$ 0.00	\$ 209,161.74
Sewer charges	0.00	446,182.05	446,182.05
Septage income	0.00	120.00	120.00
Local Grants	0.00	0.00	0.00
Late payment fees	4,887.42	5,431.25	10,318.67
Miscellaneous	129.13	40,926.49	41,055.62
Total Operating Revenues	214,178.29	492,659.79	706,838.08
OPERATING EXPENSES:			
Salaries	39,026.27	109,460.43	148,486.70
Fringes and taxes	18,116.07	53,967.71	72,083.78
Water - cost of goods sold	78,660.86	5,936.35	84,597.21
Contractual services	0.00	1,829.72	1,829.72
Supplies	2,597.40	35,876.57	38,473.97
Repairs and maintenance	6,344.82	66,733.20	73,078.02
Utilities	2,308.64	76,846.68	79,155.32
Regional water costs	6,185.00	0.00	6,185.00
Insurance	9,689.69	10,026.73	19,716.42
Other	5,148.07	12,121.27	17,269.34
Depreciation	30,824.28	107,284.72	138,109.00
Total Operating Expenses	198,901.10	480,083.38	678,984.48
Operating Income	15,277.19	12,576.41	27,853.60
NONOPERATING REVENUES(EXPENSES)			
Interest income	0.00	3,051.18	3,051.18
Loss on sale of capital asset	0.00	0.00	0.00
Interest expense	0.00	(112,271.75)	(112,271.75)
Total Nonoperating Expenses	0.00	(109,220.57)	(109,220.57)
Income before contributions and transfers	15,277.19	(96,644.16)	(81,366.97)
Transfers in	0.00	0.00	0.00
Transfers out	0.00	0.00	0.00
Total transfers in (out)	0.00	0.00	0.00
Change in Net Position	15,277.19	(96,644.16)	(81,366.97)
Net Position Beginning of Year	497,731.46	681,988.93	1,179,720.39
Net Position End of Year	\$ 513,008.65	\$ 585,344.77	\$ 1,098,353.42

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

CITY OF PINCONNING  
Bay County, Michigan

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
WATER AND SEWER FUNDS  
Year Ended June 30, 2017

	Major Enterprise Funds		Business-Type
	Water	Sewer	Activities
	Fund	Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 209,427.77	\$ 489,670.30	\$ 699,098.07
Other operating cash receipts	0.00	0.00	0.00
Cash payments to suppliers for goods and services	(112,731.36)	(216,009.8)	(328,741.20)
Cash payments to employees for services	(63,955.33)	(140,424.4)	(204,379.71)
Net cash provided (used) by operating activities	32,741.08	133,236.08	165,977.16
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:</b>			
Transfers from other funds	0.00	0.00	0.00
Transfers to other funds	0.00	0.00	0.00
Net cash provided (used) by noncapital financing activities	0.00	0.00	0.00
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	0.00	0.00	0.00
Proceeds from sale of capital assets	0.00	0.00	0.00
Interest paid on bonds	0.00	(112,271.75)	(112,271.75)
Principal payments on bonds	0.00	(67,000.00)	(67,000.00)
Change in restricted cash requirements	0.00	8,714.05	8,714.05
Change in net pension liability	934.00	2,803.00	3,737.00
Net cash provided (used) by capital and related financing activities	934.00	(167,754.70)	(170,557.70)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on investments	0.00	3,051.18	3,051.18
Net increase (decrease) in cash	33,675.08	(31,467.44)	(1,529.36)
Cash beginning of year	(2,876.81)	(145,760.88)	(148,637.69)
Cash end of year	\$ 30,798.27	\$ (177,228.32)	\$ (150,167.05)
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Income (loss) from operations	\$ 15,277.19	12,576.41	\$ 27,853.60
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	30,824.28	107,284.72	138,109.00
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	2,990.61	(218.37)	2,772.24
(Increase) decrease in inventory	0.00	0.00	0.00
(Increase) decrease in deferred outflows	2,259.00	6,777.00	
Increase (decrease) in accounts payable	(23,427.58)	1,177.79	(22,249.79)
Increase (decrease) in accrued expenses	4,817.58	5,638.53	10,456.11
	17,463.89	120,659.67	129,087.56
Net Cash Provided (Used) in Operating Activities	\$ 32,741.08	\$ 133,236.08	\$ 156,941.16

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



CITY OF PINCONNING  
Bay County, Michigan

STATEMENT OF NET POSITION  
 FIDUCIARY FUND  
June 30, 2017

	TAX COLLECTION AGENCY FUND	CITY RESTITUTION AND FORFEITURE FUND
<u>ASSETS</u>		
Cash in bank	\$ <u>19,238.98</u>	\$ <u>3,445.00</u>
<u>LIABILITIES</u>		
Due to Downtown Development Authority	\$ 0.00	\$ 0.00
Due to General Fund	19,238.98	0.00
Due to Others	<u>0.00</u>	<u>3,445.00</u>
Total Liabilities	\$ <u>19,238.98</u>	\$ <u>3,445.00</u>

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

CITY OF PINCONNING  
Bay County, Michigan

COMPONENT UNIT  
STATEMENT OF NET POSITION  
DOWNTOWN DEVELOPMENT AUTHORITY  
June 30, 2017

ASSETS:

Current Assets:		
Cash	\$	100,706.12
Due from other funds		8,281.08
Other receivables		<u>0.00</u>
Total Current Assets		108,987.20
Noncurrent Assets:		
Land		5,000.00
Construction in progress		0.00
Equipment		3,100.00
Buildings and improvements		140,015.91
Accumulated depreciation		<u>(54,140.89)</u>
Total Noncurrent Assets		<u>93,975.02</u>
Total Assets		202,962.22

LIABILITIES:

Current Liabilities:		
Accounts payable		0.00
Due to Capital Projects Fund		0.00
Building authority bond		<u>0.00</u>
Total Current Liabilities		0.00
Noncurrent Liabilities:		
Building authority bond		<u>0.00</u>
Total Noncurrent Liabilities		<u>0.00</u>
Total Liabilities		0.00

NET POSITION:

Invested in capital assets net of related debt		93,975.02
Unrestricted		<u>108,987.20</u>
Total Net Position	\$	<u><u>202,962.22</u></u>

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

CITY OF PINCONNING  
 Bay County, Michigan

COMPONENT UNIT - DDA  
 STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Downtown Development Authority</u>
DOWNTOWN DEVELOPMENT AUTHORITY					
Economic development	\$ 52,163.93	\$ 250.00	\$ 0.00	\$ 0.00	\$ (51,913.93)
Interest on long-term debt	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Governmental Activities	<u>52,163.93</u>	<u>250.00</u>	<u>0.00</u>	<u>0.00</u>	(51,913.93)
GENERAL REVENUES:					
Property taxes					54,117.88
Transfer from General Fund					0.00
Net Loss on sale of assets					0.00
Unrestricted investment earnings					<u>135.17</u>
Total General Purpose Revenues and Transfers					<u>54,253.05</u>
Change in Net Position					2,339.12
Net Position - Beginning of Year					<u>200,623.10</u>
Net Position - End of Year					\$ <u>202,962.22</u>

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

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

A. DESCRIPTION OF REPORTING ENTITY:

The City of Pinconning is located in Bay County and operates under an elected Board of Council Members (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. REPORTING ENTITY:

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Pinconning has one component unit, the Downtown Development Authority. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, and promote growth within the district. The Authority's governing body, which consists of nine (9) individuals, is appointed by the Mayor and approved by the City Council.

**Joint Fire Authority -**

The City of Pinconning, Pinconning Township and the Township of Fraser participate jointly in the operation of the Pinconning Fraser Fire Department Authority. The funding formula requires that each municipality share the operational costs of the department. All the financial operations of the fire department are recorded in the Pinconning Fraser Fire Department Authority and separate financial information is available from the Authority. The City's portion contributed for the fiscal year was \$ 58,337.18 for operating purposes and \$ 0.00 for capital expenditures.

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

C. BASIS OF PRESENTATION:

The Government-wide financial statements (the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the activities of City. The effect of the interfund activity, within the Governmental and Business-type Activities columns, 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.

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

D. FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for Governmental and Proprietary Activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of Governmental Funds is on the sources, uses and balance of current financial resources. The City has presented the following Major Governmental Funds:

**Major Government Funds**

***General Fund -***

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

***Major Street Fund -***

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted

CITY OF PINCONNING  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

expenditures of those funds related to the maintenance and construction of major roads within the City.

***Local Street Fund -***

Local Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of local roads within the City.

**Proprietary Funds**

Proprietary Funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the Proprietary Funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following Major Proprietary Funds:

***Water Fund -***

Water Fund is used to account for the provision of water to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

***Sewer Fund***

Sewer Fund is used to account for sewage disposal for the residents of the City. Activities of the fund include administration, operation and maintenance of the sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

**Fiduciary Funds**

***Tax Collection Fund and City Restitution and Forfeiture Fund-***

The Tax Collections Agency Fund accounts for assets held by the City in a trustee capacity. Tax Collections are custodial in nature and do not involve the measurement of results of operations. The City Restitution and Forfeiture Fund accounts for assets held by the City in a trustee capacity, which are custodial in nature and do not involve measurement of operating results.

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**E. MEASUREMENT FOCUS/BASIS OF ACCOUNTING:**

Measurement focus refers to what is being measured. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-wide Statements and Fund Financial Statements for Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

**F. FIXED ASSETS/DEPRECIATION:**

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	40 – 50 years
Land improvements	15 – 20 years
Vehicles	5 – 10 years
Furniture and other equipment	3 – 10 years
Water and sewer transmission lines	40 years

**G. FUND EQUITY:**

In the Fund Financial Statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**H. PROPERTY TAXES:**

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 15 with a final collection date of February 29 before they are added to the county tax rolls.

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

The 2016 taxable valuation of City properties totaled \$ 26,413,050: The taxes levied and the resulting revenue by fund and component unit was as follows:

	Millage Rate	Gross Levy/ Revenue	DDA Capture	Net Taxes
Operating millage – net of portion captured by Downtown Development Authority	14.6736	\$ 387,574	\$ 24,350	\$ 363,224
Special Assessment-Refuse collection	N/A	76,194	N/A	76,194
Special Assessment-Ambulance	N/A	14,065	N/A	14,065
 Total Governmental Funds		 \$ 477,833	 \$ 24,350	 \$ 453,483
 Capture from other units			 22,654	
 Component Unit				
 Downtown Development Authority	 N/A		 \$ 47,005	

**I. RESTRICTED CASH:**

The City's 1996 series A & B and 2002 series water and sewer bonds require that the City maintain a bond reserve account. The 1996 series A & B bond reserve account is designated for bond principal and interest payments requires \$3,625.00 deposited into the account each quarter until there is accumulated a sum of \$145,000.00. The 2002 series bond reserve account is designated for bond principal and interest payments requires \$900.00 deposited into the account each quarter until there is accumulated a sum of \$36,000.00. Total funds in the 1996 series A & B and 2002 bond reserve accounts at June 30, 2017 are \$ 181,000.00 and \$ 189,714.05 respectively. These funds are restricted to be used for future debt payments.

**J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

**K: PENSIONS:**

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



CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the City to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City incurred expenditures in excess of budgeted amounts in the General Fund as follows:

City Manager	Over budget by \$12,601.
Treasurer	Over budget by \$ 7,911.
Clerk	Over budget by \$ 7,032.
City Hall	Over budget by \$ 8,361.
Fire	Over budget by \$26,237.
Sanitation	Over budget by \$ 225.
Department of Public Works	Over budget by \$30,315.
Parks and Recreation	Over budget by \$ 1,602.

**Failure to File F-65 Report, Annual Audit Report and ACT 51 Report Timely** – The City failed to file the annual audit reports with the State (Department of Treasury). The City also failed to file the Annual Local Unit Fiscal Report (F-65) in accordance with MCL 141.425 section 5 and the ACT 51 report.

**NOTE 3. LONG-TERM DEBT:**

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Monthly Ranges	Beginning Balances	Additions (Deductions)	Ending Balance	Current Portion
<b>BUSINESS – TYPE ACTIVITIES</b>						
1996 Revenue Bond B	4.5	5,000/yr	0	(0)	0	0
1996 Revenue Bond A	4.5	5,000-155,500/yr	1,945,000	(60,000)	1,885,000	65,000
2002 Revenue Bond A	4.75	3,000-50,000/yr	492,000	(6,000)	486,000	6,000
2002 Revenue Bond B	4.75	1,000-3,000/yr	<u>32,000</u>	<u>(1,000)</u>	<u>31,000</u>	<u>1,000</u>
Total Business-type Activity			<u>\$ 2,469,000</u>	<u>\$ (67,000)</u>	<u>\$ 2,402,000</u>	<u>\$ 72,000</u>

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 3. LONG-TERM DEBT (continued):**

Annual debt service principal and interest requirements are summarized as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 72,000	109,646
2019	77,000	106,412
2020	84,000	102,953
2021	89,000	99,173
2022	91,000	92,749
2023-2027	545,000	394,664
2028-2032	703,000	225,738
2033-2037	584,000	71,655
2038-2041	157,000	11,235
<b>Total</b>	<b>2,402,000</b>	<b>1,214,225</b>

**NOTE 4. CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance July 1, 2016</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2017</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Capital assets being depreciated				
Buildings and improvements	955,204	0	0	955,204
Furniture & equipment	653,485	13,975	0	667,460
Infrastructure	637,853	0	0	637,853
Subtotal	2,246,542	13,975	0	2,260,517
Less accumulated depreciation	1,594,817	47,584	0	1,642,401
Net capital assets	\$ 676,725	\$ (33,609)	\$ 0	\$ 643,117
<b>Business – type activities:</b>				
Capital assets not being depreciated				
Land	\$ 50,000	\$ 0	\$ 0	\$ 50,000
Capital assets being depreciated				
Buildings and improvements	3,452,334	0	0	3,452,334
Water and sewer distribution systems	2,897,948	0	0	2,897,948
Furniture and equipment	213,779	0	0	213,779
Subtotal	6,564,061	0	0	6,564,061
Less accumulated depreciation	3,052,210	138,109	0	3,190,319
Net capital assets	\$ 3,561,851	\$ (138,109)	\$ 0	\$ 3,423,742

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 4. CAPITAL ASSETS (continued):**

Capital assets activity for the City's component unit for the year was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2017</u>
<b>Component Unit</b>				
Capital assets not being depreciated				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Capital assets being depreciated				
Buildings and improvements	143,116	0	0	143,116
Less accumulated depreciation	<u>44,307</u>	<u>9,834</u>	<u>0</u>	<u>54,141</u>
Net capital assets being depreciated	<u>98,809</u>	<u>9,834</u>	<u>0</u>	<u>0</u>
Total Net Capital Assets	<u>\$ 103,809</u>	<u>\$ (9,834)</u>	<u>\$ 0</u>	<u>\$ 93,975</u>

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

Governmental Activities:

Legislative	\$ 0
General government	14,578
Public safety	5,231
Streets	23,322
Public works	0
Recreation and culture	<u>4,453</u>
Total Depreciation Expense	<u>\$ 47,584</u>

Business-type Activities:

Water	30,824
Sewer	<u>107,285</u>
Total Water and Sewer	<u>\$ 138,109</u>

Component Unit:

DDA	<u>\$ 9,834</u>
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**NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The City had no interfund receivables or payables. Transfers are detailed below:

	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>	<u>Purpose</u>
Local Street	\$ 20,000	Major Street	\$ 20,000	50% Allowable state transfer
Total	<u>\$ 20,000</u>		<u>\$ 20,000</u>	

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 6. CUSTODIAL CREDIT RISK:**

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority. The following is total cash:

Governmental Activities	Business Type	Total Primary Government	Component Unit
\$ 1,107,351	\$ 34,570	\$ 1,141,921	\$ 100,706

The breakdown between deposits and investments for the City is as follows:

Deposits (checking and savings accounts)	\$ 1,242,427
Investments in securities, mutual funds, and similar vehicles	0
Petty cash and cash on hand	200
Total	\$ 1,242,627

Risk categories are classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
  - (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name.
  - (3) Uncollateralized - This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.
- Bank deposits including certificates of deposit:

Category 1.	\$ 1,242,627
Category 2.	0
Category 3.	0
Total Bank Balances	\$ 1,242,627

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 7. DEFINED BENEFIT PENSION PLAN:**

**Plan Description**

The employer'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](http://www.mersofmich.com).

**Benefits Provided**

Benefits provided include plans with multipliers ranging from 2.00% to 2.25%. Vesting period is 10 years. Normal retirement age is 60 with early retirement at 55 with 15 years of service for unreduced benefits and early retirement at 50 with 25 years of service for reduced benefits. Final average compensation is calculated based on 5 years. Member contributions range from 5% to 7.20%.

**Employees Covered by Benefit Terms**

At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	1
Active Employees	<u>6</u>
Total	<u>24</u>

**Contributions**

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 1.43% to 34.87% based on annual payroll for open divisions.

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 7. DEFINED BENEFIT PENSION PLAN (Continued):**

**Net Pension Liability**

The employer's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

**Actuarial Assumptions**

The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement include: 1) Inflation 2.5%; 2) Salaries increases 3.75% in the long-term, 3) Investment rate of return 7.75%, net of investment 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 1994 Group Annuity Mortality Table of 50% male and 50% female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 7. DEFINED BENEFIT PENSION PLAN (Continued):**

**Discount Rate**

The discount rate used to measure the total pension liability is 8.00% for 2016. 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 employees. 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.

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

		2017
<b>Total Pension Liability</b>		
Service cost	\$	20,955
Interest on the total pension liability		172,687
Difference between expected and actual experience		64,516
Other changes		-
Benefit payments and refunds		(172,994)
Net change in total pension liability		85,164
Total pension liability - beginning		2,234,604
Total pension liability - ending (a)	\$	2,319,768
 <b>Plan Fiduciary Net Position</b>		
Employer contributions	\$	68,101
Employee contributions		18,539
Pension plan net investment income		136,855
Benefit payments and refunds		(172,994)
Pension plan administrative expense		(2,707)
Net change in plan fiduciary net position		47,794
Plan fiduciary net position - beginning		1,236,500
Plan fiduciary net position - ending (b)		1,284,294
Net pension liability (a-b)	\$	1,035,474

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 7. DEFINED BENEFIT PENSION PLAN (continued):**

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

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

	1% Decrease <u>7.00%</u>	Current Discount Rate <u>8.00%</u>	1% Increase <u>9.00%</u>
Change in Net Pension Liability	\$ 213,881	\$ 0	\$ (184,686)
Calculated Net Pension Liability	\$ 1,249,355	\$ 1,035,474	\$ 850,788

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

For the year ended June 30, 2017, the employer recognized pension expense of \$ 127,732. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows Of Resources
Differences in Experience	\$ 32,258	\$ 0
Differences in Assumptions	0	0
Excess (Deficit) Investment Returns	<u>60,228</u>	<u>0</u>
Total to be smoothed over 5 years	92,486	0
Contributions Subsequent to the Measurement Date*	<u>30,084</u>	<u>0</u>
Total	<u>\$ 122,570</u>	<u>\$ 0</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 2018.



CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 7. DEFINED BENEFIT PENSION PLAN (continued):**

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

<u>Year Ended</u>	
2017	57,942
2018	25,686
2019	17,157
2020	(8,297)
2021	<u>(2)</u>
<b>Total</b>	<b>92,486</b>

**NOTE 8. RISK MANAGEMENT:**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in Michigan Township Participant Plan, a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage.

**NOTE 9. MANAGEMENT REVIEW:**

Management has evaluated subsequent events and transactions for potential recognition and disclosure through February 8, 2018, the date the financial statement were available to be issued. No such significant events or transactions were identified.

**NOTE 10. FUND BALANCE CLASSIFICATIONS:**

Beginning with the year ended June 30, 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources for which the resources can be used:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, or laws or regulations of other governments or is imposed through constitutional provisions or enabling legislation.

CITY OF PINCONNING  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 10. FUND BALANCE CLASSIFICATIONS (continued):**

Committed – The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by formal City Council resolutions.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts have been restricted, committed or assigned.

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

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

**NOTE 11. TAX ABATEMENTS**

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

As of June 30, 2017, the City's property tax revenue was reduced by \$ 2,623.27 under these programs.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PINCONNING  
Bay County, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 356,000.00	\$ 356,000.00	\$ 363,718.46	\$ 7,718.46
Special assessment solid waste	76,000.00	76,000.00	76,427.60	427.60
Special assessment ambulance	14,065.00	14,065.00	14,064.96	(0.04)
State revenue sharing	131,800.00	131,800.00	133,425.00	1,625.00
Intergovernmental other	40,000.00	40,000.00	59,991.30	19,991.30
Charges for services	28,200.00	28,200.00	39,256.47	11,056.47
License and permits	0.00	0.00	4.00	4.00
Interest and rental	3,000.00	3,000.00	23,326.99	20,326.99
Other revenue	28,000.00	28,000.00	0.00	(28,000.00)
Total Revenues	677,065.00	677,065.00	710,214.78	33,149.78
<b>EXPENDITURES:</b>				
Legislative	12,380.00	12,380.00	11,041.62	1,338.38
General Government -				
City Manager	50,548.00	50,548.00	63,148.97	(12,600.97)
Elections	7,140.00	7,140.00	2,084.82	5,055.18
Assessor	17,600.00	17,600.00	17,450.23	149.77
Accounting	0.00	0.00	0.00	0.00
Board of Review	1,700.00	1,700.00	1,508.71	191.29
Treasurer	19,798.00	19,798.00	27,708.60	(7,910.60)
Clerk	41,972.00	41,972.00	49,004.08	(7,032.08)
City Hall	53,421.00	53,421.00	61,781.87	(8,360.87)
Public Safety -				
Fire	32,100.00	32,100.00	58,337.18	(26,237.18)
Police	133,389.00	133,389.00	119,859.03	13,529.97
Health and Welfare-				
Ambulance	14,065.00	14,065.00	1,438.42	12,626.58
Public Works -				
Sanitation	76,000.00	76,000.00	76,224.84	(224.84)
Street lighting	28,000.00	28,000.00	22,380.02	5,619.98
Planning	0.00	0.00	0.00	0.00
Department of public works	89,173.00	89,173.00	119,487.62	(30,314.62)
Cultural and Recreation -				
Parks	9,980.00	9,980.00	11,581.57	(1,601.57)
Unallocated	89,799.00	89,799.00	86,622.39	3,176.61
Total Expenditures	677,065.00	677,065.00	729,659.97	(52,594.97)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	0.00	0.00	0.00	0.00
<b>NET CHANGE IN FUND BALANCE</b>	0.00	0.00	(19,445.19)	(19,445.19)
<b>FUND BALANCE - Beginning of Year</b>	797,011.97	797,011.97	797,011.97	0.00
<b>FUND BALANCE - End of Year</b>	\$ 797,011.97	\$ 797,011.97	\$ 777,566.78	(19,445.19)

CITY OF PINCONNING  
Bay County, Michigan

MAJOR STREET FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	80,000.00	80,000.00	94,230.03	14,230.03
Local contribution	0.00	0.00	221,760.00	221,760.00
Interest and rentals	300.00	300.00	0.00	(300.00)
Total Revenues	80,300.00	80,300.00	315,990.03	235,690.03
<b>EXPENDITURES:</b>				
Public Works-				
Routine maintenance	25,700.00	25,700.00	4,204.05	21,495.95
Signals and signs	900.00	900.00	131.42	768.58
Equipment rental	25,000.00	25,000.00	3,592.88	21,407.12
Snow removal	4,500.00	4,500.00	433.39	4,066.61
Non-Motorized	2,000.00	2,000.00	0.00	2,000.00
Administration	6,700.00	6,700.00	2,935.05	3,764.95
Total Expenditures	64,800.00	64,800.00	11,296.79	53,503.21
EXCESS REVENUES OVER EXPENDITURE	15,500.00	15,500.00	304,693.24	289,193.24
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in Local Street Fund	0.00	0.00	0.00	0.00
Transfer out Local Street Fund	(15,500.00)	(15,500.00)	(20,000.00)	(4,500.00)
Total Other Sources (Uses)	(15,500.00)	(15,500.00)	(20,000.00)	(4,500.00)
Excess (deficiency) of revenues over expenditures and other uses	0.00	0.00	284,693.24	284,693.24
FUND BALANCE - Beginning of Year	25,035.76	25,035.76	25,035.76	0.00
FUND BALANCE - End of Year	\$ 25,035.76	\$ 25,035.76	\$ 309,729.00	284,693.24

CITY OF PINCONNING  
Bay County, Michigan

LOCAL STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	27,250.00	27,250.00	46,854.73	19,604.73
Interest and rentals	<u>100.00</u>	<u>100.00</u>	<u>0.00</u>	<u>(100.00)</u>
Total Revenues	27,350.00	27,350.00	46,854.73	19,504.73
EXPENDITURES:				
Public Works-				
Routine maintenance	18,450.00	18,450.00	10,723.34	7,726.66
Signals and signs	800.00	800.00	27.03	772.97
Snow removal	3,000.00	3,000.00	3,223.37	(223.37)
Administration	4,600.00	4,600.00	1,399.00	3,201.00
Equipment rental	15,000.00	15,000.00	15,699.16	(699.16)
Nonmotorized	<u>1,000.00</u>	<u>1,000.00</u>	<u>0.00</u>	<u>1,000.00</u>
Total Expenditures	<u>42,850.00</u>	<u>42,850.00</u>	<u>31,071.90</u>	<u>11,778.10</u>
EXCESS REVENUES OVER EXPENDITURE	(15,500.00)	(15,500.00)	15,782.83	31,282.83
OTHER FINANCING SOURCES (USES):				
Transfer to Major Street	0.00	0.00	0.00	0.00
Transfer from General	0.00	0.00	0.00	0.00
Transfer from Major Street	<u>15,500.00</u>	<u>15,500.00</u>	<u>20,000.00</u>	<u>4,500.00</u>
Total Other Sources (Uses)	15,500.00	15,500.00	20,000.00	4,500.00
Excess (deficiency) of revenues over expenditures and other uses	0.00	0.00	35,782.83	35,782.83
FUND BALANCE - Beginning of Year	<u>5,289.56</u>	<u>5,289.56</u>	<u>5,289.56</u>	<u>0.00</u>
FUND BALANCE - End of Year	<u>\$ 5,289.56</u>	<u>\$ 5,289.56</u>	<u>\$ 41,072.39</u>	<u>35,782.83</u>

CITY OF PINCONNING  
Bay County, Michigan

REQUIRED SUPPLEMENTARY INFORMATION  
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN  
SCHEDULE OF CHANGES IN NET POSITION LIABILITY AND RELATED RATIOS  
June 30, 2017

	<u>2017</u>	<u>2016</u>
<b>Total Pension Liability</b>		
Service cost	\$ 20,955	\$ 31,092
Interest on the total pension liability	172,687	167,686
Difference between expected and actual experience	64,516	13,798
Changes in assumptions	0	95,300
Other changes	0	(230)
Benefits payments and refunds	<u>(172,994)</u>	<u>(180,111)</u>
Net change in total pension liability	85,164	127,535
Total pension liability - beginning	<u>2,234,604</u>	<u>2,107,069</u>
Total pension liability - ending (a)	<u>\$ 2,319,768</u>	<u>\$ 2,234,604</u>
 <b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 68,101	\$ 52,445
Employee contributions	18,539	16,444
Pension plan net investment income	136,855	(18,997)
Benefit payment and refunds	(172,994)	(180,111)
Pension plan administrative expense	<u>(2,707)</u>	<u>(2,897)</u>
Net change in plan fiduciary net position	47,794	(133,116)
Plan fiduciary net position - beginning	<u>1,236,500</u>	<u>1,369,616</u>
Plan fiduciary net position - ending (b)	<u>1,284,294</u>	<u>1,236,500</u>
Net pension liability (a-b)	<u>\$ 1,035,474</u>	<u>\$ 998,104</u>
 Plan fiduciary net position as a percentage of total pension liability	55.36%	55.33%
Covered employee payroll	\$ 231,284	\$ 273,808
Net pension liability as a percentage of covered employee payroll	447.71%	364.53%

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF PINCONNING  
Bay County, Michigan

REQUIRED SUPPLEMENTARY INFORMATION  
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN  
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
June 30, 2017

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarial Determined Contributions	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 68,101	\$ 52,445	\$ 39,476
Contributions in relation to the actuarially determined contribution		0	0	0	0	0	0	68,101	52,445	39,476
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Employee Payroll	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 231,284	\$ 273,808	\$ 260,761
Contributions as a percentage of covered employee payroll								29%	19%	15%

Notes to Schedule

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Actuarially determined contribution rates are calculated as of December 31, each year, which is 6 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	24 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	60
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table



OTHER SUPPORTING INFORMATION

CITY OF PINCONNING  
Bay County, Michigan

DOWNTOWN DEVELOPMENT AUTHORITY FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 53,000.00	\$ 53,000.00	\$ 54,117.88	\$ 1,117.88
Sale of assets	0.00	0.00	0.00	0.00
Other income	0.00	0.00	250.00	250.00
Interest	<u>100.00</u>	<u>100.00</u>	<u>135.17</u>	<u>35.17</u>
Total Revenues	53,100.00	53,100.00	54,503.05	1,403.05
<b>EXPENDITURES:</b>				
Economic Development:				
Building maintenance	6,000.00	6,000.00	5,859.70	140.30
Administrative fees	5,500.00	5,500.00	5,500.00	0.00
Project activities	120,200.00	120,200.00	25,346.95	94,853.05
Debt - principal	0.00	0.00	0.00	0.00
Debt- interest	0.00	0.00	0.00	0.00
Capital outlay	0.00	0.00	0.00	0.00
Other	<u>11,400.00</u>	<u>11,400.00</u>	<u>5,623.43</u>	<u>5,776.57</u>
Total Expenditures	143,100.00	143,100.00	42,330.08	100,629.62
EXCESS REVENUES OVER EXPENDITURE	(90,000.00)	(90,000.00)	12,172.97	102,172.97
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Excess (deficiency) of revenues over expenditures and other uses	(90,000.00)	(90,000.00)	12,172.97	<u>102,172.97</u>
FUND BALANCE - Beginning of Year	<u>96,814.23</u>	<u>96,814.23</u>	<u>96,814.23</u>	
FUND BALANCE - End of Year	\$ <u>6,814.23</u>	\$ <u>6,814.23</u>	\$ <u>108,987.20</u>	

CITY OF PINCONNING  
Bay County, Michigan

COMPONENT UNIT - DDA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017

NET CHANGE IN FUND BALANCE	\$	12,172.97
Amounts reported for Governmental Activities in the Statement of Activities are different because -		
Governmental Funds report capital outlays as expenditures while in the Statement of Activities, these costs are allocated over their estimated lives as depreciation expense.		
Depreciation expense		(9,833.85)
Capital asset purchases capitalized		0.00
Repayment of debt principal is an expenditure in the Governmental Funds, the repayment does not have an effect in the Statement of Activities but does reduce the debt balance in the Statement of Net Position.		
Principal payments on long-term debt		0.00
CHANGE IN NET POSITION - COMPONENT UNIT ACTIVITIES	\$	<u>2,339.12</u>

CITY OF PINCONNING  
Bay County, Michigan

COMPONENT UNIT  
DOWNTOWN DEVELOPMENT AUTHORITY  
BALANCE SHEET  
June 30, 2017

ASSETS:

Current Assets:

Cash	\$	100,706.12
Due from other funds		8,281.08
Taxes receivable		<u>0.00</u>

Total Current Assets	\$	<u><u>108,987.20</u></u>
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LIABILITIES:

Current Liabilities:

Accounts payable	\$	0.00
Due to Capital Projects Fund		<u>0.00</u>

Total Current Liabilities		0.00
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Fund Balance

Unrestricted		<u>108,987.20</u>
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Total Liabilities and Fund Balance	\$	<u><u>108,987.20</u></u>
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CITY OF PINCONNING  
Bay County, Michigan

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY  
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET POSITION  
June 30, 2017

FUND BALANCES ON BALANCE SHEET	\$ 108,987.20
Amounts reported for Governmental Activities in the Statement of Net Position are different because -	
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:	
Capital assets at cost	148,115.91
Accumulated depreciation	(54,140.89)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds	0.00
TOTAL NET POSITION - COMPONENT UNIT	\$ <u>202,962.22</u>

CITY OF PINCONNING  
Bay County, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2017

REVENUES:

Taxes -	
Current tax levy	\$ 361,895.88
Special assessment solid waste	76,427.60
Ambulance	14,064.96
Penalties and interest	1,822.58
Collection fee	0.00
	<hr/>
Total taxes	454,211.02
State and Local Grants -	
State revenue sharing	133,425.00
Metro act	0.00
Local grant	58,327.00
Other grants	0.00
Liquor license fees	1,664.30
	<hr/>
	193,416.30
Licenses and permits -	
Dog and cat	4.00
Zoning	0.00
Mobile home park	0.00
	<hr/>
Total licenses and permits	4.00
Charges for Services -	
Notary fees	0.00
Weed cutting	1,311.85
Administration fees	0.00
Miscellaneous	17,433.93
Police/fire reports	0.00
Police services	20,510.69
	<hr/>
Total charges for services	39,256.47
Interest and Rentals -	
Interest	3,402.79
Rents	19,924.20
	<hr/>
Total interest and rentals	23,326.99
Total Revenues	710,214.78
EXPENDITURES	729,659.97
OTHER FINANCING SOURCES (USES)	
Transfer to Sewer	0.00
Transfer to Local Street	0.00
	<hr/>
Total other uses	0.00
NET CHANGE IN FUND BALANCE	(19,445.19)
FUND BALANCE - July 1, 2016	<hr/>
	797,011.97
FUND BALANCE - June 30, 2017	<hr/>
	\$ 777,566.78

CITY OF PINCONNING  
Bay County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES  
Year Ended June 30, 2017

EXPENDITURES:

LEGISLATIVE:

Mayor and City Council -

Salaries	\$	9,740.00
Fringes and taxes		745.12
Membership dues		500.00
Audit		0.00
Supplies and other		<u>56.50</u>

Total Legislative 11,041.62

GENERAL GOVERNMENT:

City Manager -

Wages		58,567.03
Fringes and taxes		4,581.94
Telephone		0.00
Mileage and other		<u>0.00</u>

Total Manager 63,148.97

Elections -

Wages		1,360.00
Supplies		662.32
Printing and publication		<u>62.50</u>

Total Elections 2,084.82

Accounting -

Supplies		0.00
Office equip. maint.		0.00
Other costs		<u>0.00</u>

Total Accounting 0.00

Assessor -

Contracted service		13,520.00
County tax roll service		2,274.10
Supplies and other costs		<u>1,656.13</u>

Total Assessor 17,450.23

Board of Review -

Fees		912.21
Other costs		<u>596.50</u>

Total Board of Review 1,508.71

CITY OF PINCONNING  
Bay County, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2017

EXPENDITURES (CONT.):  
GENERAL GOVERNMENT (CONT.):

Treasurer -	
Salaries	\$ 25,600.00
Fringes and taxes	1,969.50
Mileage	114.10
Meetings	25.00
Supplies and other	<u>0.00</u>
Total Treasurer	27,708.60
Clerk -	
Salaries	45,235.19
Fringes and taxes	3,526.73
Mileage	112.16
Meetings	130.00
Supplies and other	<u>0.00</u>
Total Clerk	49,004.08
City Hall and Grounds -	
Advertising	756.85
Custodial	2,400.00
Supplies	3,449.33
Office	7,728.43
Legal	424.00
Insurance	27,355.75
Utilities	10,134.87
Repairs and maintenance	6,456.72
Telephone	3,075.92
Capital outlay	<u>0.00</u>
Total City Hall	<u>61,781.87</u>
Total General Government	222,687.28
PUBLIC SAFETY:	
Fire Department -	
Contracted fire protection	58,337.18
Hydrant rental	0.00
Capital outlay	<u>0.00</u>
Total Fire Department	58,337.18



CITY OF PINCONNING  
Bay County, Michigan

GENERAL FUND  
 DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2017

EXPENDITURES (CONT.):	
PUBLIC SAFETY (CONT.)	
Police -	
Salaries	\$ 90,374.05
Fringes and taxes	6,858.81
Office	60.87
Gas and oil	1,914.65
Legal	0.00
Supplies	1,443.55
Uniforms	137.58
Contracted services	200.00
Telephone	1,396.33
Training	1,186.61
Insurance	14,644.75
Capital outlay	0.00
Vehicle maintenance	1,446.83
Other costs	<u>195.00</u>
Total Police	119,859.03
Total Public Safety	178,196.21
HEALTH AND WELFARE	
Ambulance -	
Contracted service	1,438.42
PUBLIC WORKS:	
Sanitation -	
Refuse contract	76,224.84
Street Lighting	22,380.02
Department of Public Works -	
Salaries	51,732.25
Fringes and taxes	4,885.20
Supplies	13,782.53
Uniforms	250.00
Gas and oil	5,542.89
Telephone	1,145.95
Insurance	11,561.75
Utilities	4,432.57
Maintenance and repairs	12,179.48
Capital outlay	<u>13,975.00</u>
Total DPW	119,487.62
Planning and Zoning -	<u>0.00</u>
Total Public Works	218,092.48
RECREATION AND CULTURAL:	
Parks and Recreation -	
Utilities	2,752.20
Repairs and maintenance	2,934.73
Insurance	5,362.75
Supplies and other	531.89
Capital outlay	<u>0.00</u>
Total Recreation and Cultural	11,581.57
UNALLOCATED	
Health insurance and other fringes	32,803.09
Retirement	<u>53,819.30</u>
Total Unallocated	<u>86,622.39</u>
Total Expenditures	\$ <u><u>729,659.97</u></u>

CITY OF PINCONNING  
Bay County, Michigan

2002 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND SERIES A  
 SCHEDULE OF INDEBTEDNESS  
June 30, 2017

TYPE OF ISSUE: Revenue Bond  
 PURPOSE OF ISSUE: Water and Sewage System Improvements  
 INTEREST RATE: 4.75%  
 TOTAL AUTHORIZED ISSUE: 544,000

Date	June 1		December 1	Total
	Interest	Principal	Interest Only	
2017	-	-	11,542	11,542
2018	11,542	6,000	11,400	28,942
2019	11,400	6,000	11,257	28,657
2020	11,257	8,000	11,067	30,324
2021	11,067	8,000	10,877	29,944
2022	10,877	10,000	10,640	31,517
2023	10,640	10,000	10,402	31,042
2024	10,402	10,000	10,165	30,567
2025	10,165	15,000	9,809	34,974
2026	9,809	15,000	9,453	34,262
2027	9,453	15,000	9,096	33,549
2028	9,096	15,000	8,740	32,836
2029	8,740	18,000	8,313	35,053
2030	8,313	20,000	7,838	36,151
2031	7,838	20,000	7,363	35,201
2032	7,363	20,000	6,888	34,251
2033	6,888	20,000	6,413	33,301
2034	6,413	20,000	5,938	32,351
2035	5,938	20,000	5,463	31,401
2036	5,463	40,000	4,513	49,976
2037	4,513	40,000	3,563	48,076
2038	3,563	50,000	2,375	55,938
2039	2,375	50,000	1,188	53,563
2040	1,188	50,000	0	51,188
	\$ <u>184,303</u>	\$ <u>486,000</u>	\$ <u>184,303</u>	\$ <u>854,606</u>

CITY OF PINCONNING  
Bay County, Michigan

2002 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND SERIES B  
 SCHEDULE OF INDEBTEDNESS  
June 30, 2017

TYPE OF ISSUE: REVENUE BOND  
 PURPOSE OF ISSUE: WATER AND SEWAGE SYSTEM IMPROVEMENTS  
 INTEREST RATE: 4.75%  
 ORIGINAL ISSUE: 47,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest Only</u>	
2017	-	-	736	736
2018	1,000	736	712	2,448
2019	1,000	712	689	2,401
2020	1,000	689	665	2,354
2021	1,000	665	641	2,306
2022	1,000	641	617	2,258
2023	1,000	617	594	2,211
2024	1,000	594	570	2,164
2025	1,000	570	546	2,116
2026	1,000	546	523	2,069
2027	1,000	523	499	2,022
2028	1,000	499	475	1,974
2029	1,000	475	451	1,926
2030	1,000	451	428	1,879
2031	1,000	428	404	1,832
2032	1,000	404	380	1,784
2033	1,000	380	356	1,736
2034	2,000	356	309	2,665
2035	2,000	309	261	2,570
2036	2,000	261	214	2,475
2037	2,000	214	166	2,380
2038	2,000	166	119	2,285
2039	2,000	119	71	2,190
2040	3,000	71	0	3,071
	\$ <u>31,000</u>	\$ <u>10,426</u>	\$ <u>10,426</u>	\$ <u>51,852</u>

CITY OF PINCONNING  
Bay County, Michigan

1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS - SERIES A  
 WATER AND SEWER FUND  
 SCHEDULE OF INDEBTEDNESS  
June 30, 2017

TYPE OF ISSUE: Revenue Bonds  
 PURPOSE OF ISSUE: Water Supply System and Sewage Disposal  
 INTEREST RATE: 4.5%  
 ORIGINAL ISSUE: 2,511,000

<u>Date</u>	<u>June 1</u>		<u>December 1</u>	<u>Totals</u>
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017	-	-	42,413	42,413
2018	42,413	65,000	40,950	148,363
2019	40,950	70,000	39,375	150,325
2020	39,375	75,000	37,687	152,062
2021	37,687	80,000	35,888	153,575
2022	35,887	80,000	34,087	149,974
2023	34,088	85,000	32,175	151,263
2024	32,175	90,000	30,150	152,325
2025	30,150	95,000	28,013	153,163
2026	28,013	100,000	25,762	153,775
2027	25,762	105,000	23,400	154,162
2028	23,400	110,000	20,925	154,325
2029	20,925	115,000	18,338	154,263
2030	18,338	120,000	15,637	153,975
2031	15,637	125,000	12,825	153,462
2032	12,825	135,000	9,788	157,613
2033	9,788	135,000	6,750	151,538
2034	6,750	145,000	3,487	155,237
2035	3,487	155,000	0	158,487
	\$ <u>457,650</u>	\$ <u>1,885,000</u>	\$ <u>457,650</u>	\$ <u>2,800,300</u>

CITY OF PINCONNING  
Bay County, Michigan

SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2017

**Material Weaknesses**

**2017-001- Material Audit Adjustments (repeat)**

Condition – Material audit adjustments were necessary to adjust cash, accounts receivable, capital assets, accounts payable, current and long-term debt, tax revenues, local contributions and transfers in and out to appropriate balances at year end.

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

Potential Effect – Without identification by independent, external auditors, and subsequent adjustment, the financial statements of the City would be materially misstated.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Corrections to various accounts were not completed until after year end and upon auditor discovery.

Recommendation – We recommend that management record all accounting transactions as they occur for completeness and evaluate all accounting entries to be made into the general ledger for appropriateness as well as accuracy. Reconciling bank statements and posting all transactions accurately, as well as analyzing each journal entry, specifically, for compliance with GAAP and for recording accuracy, would help to alleviate these issues.

**2017-002- Bank Reconciliations (repeat)**

Condition – Bank reconciliations were not performed timely and balances did not accurately reflect the balance noted in the general ledger.

Criteria – Management is responsible for maintaining accountings records and appropriate support, such as bank reconciliations. Each reconciliation should be performed, timely (within six weeks of month end) and the balance should be reconciled to the general ledger.

Potential Effect – The City could be misstating its cash balance or have misappropriated cash that is not discovered through traditional risk prevention techniques such as bank reconciliations.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Reconciliations were not done timely and, in some cases, no reconciliations were done, further, resulting balances were not being compared to the general ledger for accuracy.

Recommendation – All bank accounts should be reconciled monthly, without exception. We recommend that management strengthen internal controls by directly supervising the bank reconciliation process and checking for details and accuracy in the reconciliation. Further, the reconciled balances should be checked back to the general ledger to ensure balancing accuracy.

### **2017-003- Financial Statement Preparation**

Condition - As in the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Criteria – All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Potential Effect – As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, instead relying in part, on external auditors for assistance with this task.

Cause – This condition was caused by the City's decision that it is a more cost effective to outsource the preparation of its annual financial statements and identification of certain year-end adjustments to its independent auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Recommendation – The City's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the City accepts responsibility for the financial statements and that it is disclosed as part of the report. Therefore, no specific corrective action is required at this time.

### **Significant Deficiencies**

#### **2017-004- Segregation of Duties**

Condition – During the course of our audit, we noted several instances where multiple key financial duties were being performed by the same individual and the mitigating controls in place were not sufficient to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:

1. The individual who prepares the bank reconciliations also handles cash receipts and disbursements.
2. The individual who initiates transfers between bank accounts also prepares the bank reconciliations.
3. The individual who has access to the unused check stock also has access to the general ledger.

Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

Potential Effect – As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

Cause – The condition is a result of the City’s limited financial resources, the turnover and the small size of its accounting staff.

Recommendation – While there are no easy solutions to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management or the Council as possible.

### **Material Noncompliance**

#### **2017-005 – Line Item Budget Deficits**

Condition – The City had expenditures, by function, that exceeded budgeted amounts. Deviation from the budget is not allowed under the Uniform Budgeting Act and additional amendments should have been made to accurately appropriate City funds.

Criteria – 1968 PA 2, the Uniform Budgeting and Accounting Act, requires that a deviation from the original general appropriations act shall not be made without amending the budget. The amendment must be approved by the legislative body prior to the expenditure being made. There is no authority to amend the budget after year end.

Potential Effect – The City’s operations could be negatively impacted as a result of cash management and expenditure control.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Budget amendments would typically be brought to the Council when the City management reasonably expected to exceed the original budget appropriations.

Recommendation – We recommend that the City regularly review financial results and compare those results to the budget, both the original and amended. Further, we recommend that management proactively review revenues and expenditures by function and ensure all budget amendments are made before year end.

#### **2017-006- Tax Revenues Disbursed**

Condition – The City collected tax revenues for a number of taxing entities, however, payment of the revenues collected were not made in accordance with MCL 211.43 (section 43(3) of the General Property Tax Act (1893 PA 206 as amended).

Criteria – Management is responsible for collecting tax revenues and disbursing those revenues, timely in accordance with the published statutory disbursement dates, to the appropriate taxing entities in accordance with the General Property Tax Act.

Potential Effect – Tax revenues collected and not disbursed to others could cause undue financial hardship for the effected entities.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded. Payment of tax revenues collected on behalf of other entities was not made timely, and in some cases, not at all, during the fiscal year.

Recommendation – We recommend that management obtain and review the General Property Tax Act. Further, we recommend management review, regularly, the statutory disbursement dates and ensure that all taxes collected are accounted for, reconciled, and paid by the dates published by the State of Michigan.

### **2017-007- Failure to File F-65 Report**

Condition – The City failed to file the Annual Local Unit Fiscal Report (F-65) by its due date.

Criteria – In accordance with PA 71 of 1919, PA 2 of 1968 and PA 275 of 1980, the City must file an Annual Local Unit Fiscal Report with the State Treasurer within 6 months of the fiscal year end.

Potential Effect – Failure to timely file the Form F-65 may result in State Revenue Sharing money being withheld (MCL 141.921). Further, the City is noncompliant with State laws and regulations, which may be cause for additional corrective actions.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded, as a result, accounting records were not in an auditable condition and documentation and records were not complete until after the statutory due date of the Form F-65.

Recommendation – We recommend that management maintain accounting records and documentation in a manner that supports the completion of an annual audit well before the statutory due date. Subsequently, the Form F-65 should be submitted on a timely basis.

### **2017-008- Failure to File Annual Audit Report**

Condition – The City failed to file annual audit reports with the Michigan Department of Treasury by the required due date.

Criteria – In accordance MCL 141.425, local units are required to undergo a financial statement audit, which must be filed with the Department of Treasury no later than 6 months after the local unit's fiscal year end.

Potential Effect – Failure to timely file the annual audit may result in State Revenue Sharing money being withheld (MCL 141.921). Further, the City is noncompliant with State laws and regulations, which may be cause for additional corrective actions.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded, as a result, accounting records were not in an auditable condition and documentation and records were not complete until after the statutory due date of the annual audit reports.

Recommendation – We recommend that management maintain accounting records and documentation in a manner that supports the completion of an annual audit well before the statutory due date. Subsequently, the annual audit reports should be submitted on a timely basis.

### **2017-009- Failure to File ACT 51 Street Report**

Condition – The City failed to file annual audit reports with the Michigan Department of Transportation by the required due date



Criteria – In accordance with MCL Section 247.665(3) of PA 51 of 1951, as amended, also known as Section 15(3), each City shall file with the director of MDOT, not more than 120 days after the end of its fiscal year, on forms provided by the director, a report showing the disposition of funds appropriated, apportioned, or allocated under this act to the City, except funds appropriated under section 10b. The Street Administrator must ensure that forms are completed in conformance with the instructions and sent to MDOT by their due date

Potential Effect – Failure to timely file the ACT 51 Street Report may result in Michigan Transportation Fund payments being withheld.

Cause – The City incurred turnover of all staff during the year causing many transactions and processes to go unrecorded, as a result, accounting records were not in an auditable condition and documentation and records were not complete until after the statutory due date of the ACT 51 Street Report.

Recommendation – We recommend that management maintain accounting records and documentation in a manner that supports the completion of an annual audit well before the statutory due date. Subsequently, the ACT 51 Street Report should be submitted on a timely basis.



1010 N. JOHNSON STREET  
BAY CITY, MICHIGAN 48708  
Phone: (989) 892-4549  
Fax: (989) 892-4030

**CERTIFIED PUBLIC ACCOUNTANTS**

*Partners:*  
Timothy J. Quast, C.P.A.  
David G. Gwizdala, C.P.A.

*Members:*  
American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s

February 8, 2018

The City Council  
The City of Pinconning  
208 Manitou  
P.O. Box 628  
Pinconning, Michigan, 48650

We have audited 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 Pinconning for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**SIGNIFICANT AUDIT FINDINGS:**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Pinconning are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Pinconning during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated February 8, 2018.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Pinconning's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Pinconning's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis, the Budgetary Comparison Schedules, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of Employer's Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

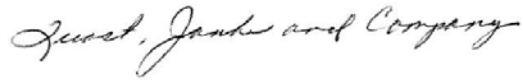
We were engaged to report on the General Fund Detail of Expenditures, the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances, the Downtown Development Authority (DDA) Fund Budgetary Comparison Schedule, the DDA Reconciliation of Balance Sheet to Statement of Net Position, the DDA Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to Statement of Activities and the DDA Balance Sheet, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content and methods of preparing the information to determine that the information compiles with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from

the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Restriction on Use**

This information is intended solely for the information and use of the City Council and management of the City of Pinconning and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



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Quast, Janke and Company, P.C.  
Certified Public Accountants