

**City of Au Gres**

**Financial Statements**

**June 30, 2019**



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**City of Au Gres**  
**List of Elected and Appointed Officials**  
**June 30, 2019**

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**City Council**

William Borushko - Mayor

Keith Edmonds - Mayor Pro Tem

Mike Hoadley - Councilman

Dan Heinrich - Councilman

Joe Warr - Councilman

**Other Officers and Officials**

Dale Wiltse - City Manager

LaVonne Pritchard - City Clerk / Treasurer



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## Independent Auditors' Report

Management and the City Council  
City of Au Gres  
Au Gres, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Au Gres, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Au Gres, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, municipal employees' retirement system schedules and other post-employment benefit schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Supplementary Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2019 on our consideration of the City of Au Gres' 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Au Gres' 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 Au Gres' internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
August 20, 2019

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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Our discussion and analysis of the City of Au Gres' (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the City's financial statements.

**Using this Annual Report**

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

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



**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

**The City as a Whole**

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current and other assets	\$ 2,386,088	\$ 2,400,953	\$ 1,764,808	\$ 1,400,711	\$ 4,150,896	\$ 3,801,664
Capital assets	<u>3,050,077</u>	<u>3,069,197</u>	<u>2,549,033</u>	<u>2,549,751</u>	<u>5,599,110</u>	<u>5,618,948</u>
Total assets	5,436,165	5,470,150	4,313,841	3,950,462	9,750,006	9,420,612
<b>Deferred outflows of resources</b>						
	<u>105,947</u>	<u>28,626</u>	<u>64,933</u>	<u>17,543</u>	<u>170,880</u>	<u>46,169</u>
Total assets and deferred outflows of resources	<u>5,542,112</u>	<u>5,498,776</u>	<u>4,378,774</u>	<u>3,968,005</u>	<u>9,920,886</u>	<u>9,466,781</u>
<b>Liabilities</b>						
Current liabilities	108,307	45,902	58,559	21,854	166,866	67,756
Long-term liabilities	<u>1,454,084</u>	<u>1,373,993</u>	<u>996,796</u>	<u>931,322</u>	<u>2,450,880</u>	<u>2,305,315</u>
Total liabilities	1,562,391	1,419,895	1,055,355	953,176	2,617,746	2,373,071
<b>Deferred inflows of resources</b>						
	<u>-</u>	<u>16,489</u>	<u>-</u>	<u>10,106</u>	<u>-</u>	<u>26,595</u>
Total liabilities and deferred inflows of resources	<u>1,562,391</u>	<u>1,436,384</u>	<u>1,055,355</u>	<u>963,282</u>	<u>2,617,746</u>	<u>2,399,666</u>
<b>Net assets</b>						
Net investment in capital assets	2,939,672	3,026,535	1,968,033	1,945,751	4,907,705	4,972,286
Restricted	614,161	662,120	75,000	-	689,161	662,120
Unrestricted	<u>425,888</u>	<u>373,737</u>	<u>1,280,386</u>	<u>1,058,972</u>	<u>1,706,274</u>	<u>1,432,709</u>
Total net position	<u>\$ 3,979,721</u>	<u>\$ 4,062,392</u>	<u>\$ 3,323,419</u>	<u>\$ 3,004,723</u>	<u>\$ 7,303,140</u>	<u>\$ 7,067,115</u>

The net position of governmental activities is \$3,979,721 and \$3,323,419 for business type activities; of these amounts \$425,888 (governmental) and \$1,280,386 (business-type) are unrestricted net position.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenue</b>						
Program revenue						
Charges for services	\$ 86,281	\$ 82,127	\$ 826,838	\$ 706,783	\$ 913,119	\$ 788,910
Operating grants and contributions	194,145	184,710	-	-	194,145	184,710
Capital grants and contributions	26,839	58,878	132,128	12,000	158,967	70,878
General revenue						
Property taxes	405,782	409,568	-	-	405,782	409,568
State-shared revenue	86,842	84,336	-	-	86,842	84,336
Unrestricted investment earnings (losses)	15,065	1,177	14,236	2,419	29,301	3,596
Transfers	(74,525)	15,000	74,525	(15,000)	-	-
Miscellaneous	16,904	12,888	74,684	78,464	91,588	91,352
Total revenue	<u>757,333</u>	<u>848,684</u>	<u>1,122,411</u>	<u>784,666</u>	<u>1,879,744</u>	<u>1,633,350</u>
<b>Program expenses</b>						
General government	217,763	152,751	-	-	217,763	152,751
Public safety	113,028	85,674	-	-	113,028	85,674
Public works	317,397	230,316	-	-	317,397	230,316
Community and economic development	600	-	-	-	600	-
Recreation and culture	165,828	173,729	-	-	165,828	173,729
Interest on long-term debt	25,388	26,044	-	-	25,388	26,044
Water, sewer, park and boat access harbor	-	-	803,715	614,135	803,715	614,135
Total program expenses	<u>840,004</u>	<u>668,514</u>	<u>803,715</u>	<u>614,135</u>	<u>1,643,719</u>	<u>1,282,649</u>
<b>Change in net position</b>	<u>\$ (82,671)</u>	<u>\$ 180,170</u>	<u>\$ 318,696</u>	<u>\$ 170,531</u>	<u>\$ 236,025</u>	<u>\$ 350,701</u>

**Governmental Activities**

The City's total governmental activity revenues were \$757,333. Governmental activity expenses of \$840,004 were recorded for the year.

**Business Type Activities**

The City's total business-type activity revenues were \$1,122,411 and expenses were \$803,715.

The City's business-type activity consists the following:

**Water Fund**

The City provides treated water to the City's residents. Raw water is purchased from Saginaw-Midland Water Supply System. The City also provides water to approximately 40 Au Gres Township customers, along US-23 west of the City. The City has a revenue bond debt for

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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recent system wide improvements. The number of users is stable. There are additional testing requirements through the EPA for stage 2 qualifications that are increasing costs and lead and copper testing analysis.

**Sewer Fund**

The City also provides municipal sanitary sewer to its residents. The City's sanitary sewer system is relatively debt free and 1971 revenue bonds through USDA were paid off in 2008. The sewer fund continues to generate less revenue than operating expenses, and it was recently noted that the city could be penalized in future wastewater grant applications, due to low fund balance in the Sewer Fund. City Council has taken action to resolve that issue by increasing the rates annually.

**Park Fund**

The City hired a new park manager and has seen an increase in revenues due to expanded office hours and selling ice, wood, night crawlers, etc. The campground provides opportunities for families with the construction of a new bike path and kayak paddling. Walleye fishing is a big draw also in the early months of the season.

**Boat Access and Harbor Fund**

The City regained ownership of the harbor in the current year. The City has received several grants and contributions to fund projects at the harbor. These include a farmer's market pavilion, kayak launch, splash pad and several other upgrades to existing structures. These projects are expected to be completed in fiscal year 2020.

The Parks and Recreation Master Plan is updated every five years and has been updated as of January 2019. The plan was originally adopted at the June 2007 regular City Council meeting, and needs to be amended to be eligible for DNR Recreation Funds. A farmer's market has recently been introduced weekly to draw additional people to the park and downtown area. As noted above, the farmer's market will be relocated to the pavilion at the harbor once complete.

**City of Au Gres Funds**

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, in the Major and Local Street funds for fiscal year 2019.

The City's major governmental funds include the following:

**General Fund**

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had a decrease in fund balance of \$35,789.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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**Capital Projects Fund**

The City refinanced the bond in fiscal year 2016 and set a new project list which includes, but is not limited to, new water digital heads, painting the water tower, cleaning out sewer ponds, etc. This new bond was for \$995,000 and payments are schedule through May 2030.

The City's major enterprise funds include the following:

**Sewer Fund**

This fund covers the operations of the City's Sewage Treatment Plant and the maintenance and construction of the sewer distribution system. The sewage treatment fund has recently retired 1971 revenue bonds and a 1971 general obligation bond which was levied on taxes. Sewer system revenues are not keeping pace with existing expenditures. The City increased rates in January 2018.

**Water Fund**

This fund finances the operation of the Water Treatment Plant and the entire transmission and distribution system. The City presently has a contract with Au Gres Township and those property owners provide additional estimated revenues of \$18,000. All revenues to operate the Water Plant and distribution system are derived from user fees. Water system revenues are not keeping pace with existing expenditures. The City increased rates in January 2018.

**Park Fund**

This fund covers the operation of the City's Riverfront Campground and the maintenance of the park buildings, mowing park grounds, and maintaining repairing recreation facilities including basketball courts, tennis courts, playground equipment, riverfront walkway, etc. All revenues to operate the Campground are derived from user fees from campers using the campground. No other user fees are collected from users of city recreation facilities.

**Harbor Fund**

This fund covers the operation of the City's harbor and the maintenance of its buildings, grounds, and maintaining and repairing facilities such as the kayak launch, farmer's market pavilion and splash pad. The harbor fund is new in fiscal year 2019 and there is no fee to use the facilities. The harbor fund is funded by grants and contributions from local, state and federal agencies.

**General Fund Budgetary Highlights**

Over the course of the year, the City Council and City administration monitor and amend the budget to account for unanticipated events during the year. There are no significant changes to report.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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**Capital Asset and Debt Administration**

At the end of fiscal year 2019, the City has \$5,599,110, net of accumulated depreciation, invested in a wide range of capital assets, including land, buildings, machinery and equipment, and water and sewer systems, net of accumulated depreciation. The value of the governmental infrastructure assets, net of depreciation contained in this report, is \$3,050,077.

Debt reported in these financial statements is related to the construction of the above mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets. During fiscal year 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement 68 to begin recording the net pension liability. During fiscal year 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement 75 to begin recording the total OPEB liability.

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

City officials continue to struggle with a slow economy in a community known for tourism and seasonal residences. Another struggle for the City is Proposal A; adopted in 1994, which is continuing to have impact on declining tax revenues. A decrease in revenues from State revenue sharing has nearly eliminated 23% gains from census growth the City of Au Gres experienced in the 2000 census. With 2010 Census figures, the City anticipates further decline of State Shared Revenues, in addition to cuts implemented already this current year by the State of Michigan.

In addition, many mandates imposed by State legislation are creating more work with less staff to comply with reporting demands. The General Tax Act, has been amended many times recently by our legislature, creating many additional taxing exemptions, additional work by City staff, and not offsetting revenues to implement this work load from other taxing jurisdictions, such as state, county and schools.

The ability to provide efficient public service by local government to its residents is declining. The services provided by local government are: police, fire, library, water, sewer, storm, streets, sidewalks, full time municipal office staff, safe and well maintained vehicles such as snow plows, street sweepers, sewer cleaners, backhoes, dump trucks, public safety issues such as street lights, street signs, police and fire responses; health and recreation opportunities such as parks and ball fields, bike paths, garbage pick-up, compost, cemeteries, and competent, trained staff to provide all of these services. The ability to provide these services are being diminished due to state legislation and mandates.

With property tax decline, due to foreclosures and other tax reduction incentives approved by state legislators, revenue sharing reduced, (and threatened to be eliminated), all costs increasing, mandates without offsetting compensation, and no revenue raising capacity approved by state legislature, the ability to provide many of the above services by local government is in jeopardy.

Rates have been increased to meet bond obligations for water issues. Other rates under jurisdiction of City have been increased to offset increased costs (such as utility, gas, etc) where possible. Capital projects have been scaled back in general fund operations, and the City has taken cost cutting approach where ever feasible while still attempting to maintain basic services to our residents.

**City of Au Gres**  
**Management's Discussion and Analysis**  
**June 30, 2019**

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**Contacting the City of Au Gres' Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Au Gres' finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the administration offices at city hall which can be rea

**City of Au Gres**  
**Statement of Net Position**  
**June 30, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 2,267,828	\$ 1,524,000	\$ 3,791,828	\$ 655,452
Investments	36,589	-	36,589	-
Accounts receivable				
Taxes	9,691	-	9,691	-
Customers	10,226	167,454	177,680	-
Accrued interest and other	-	182	182	-
Due from other units of government	36,894	42,742	79,636	-
Internal balances	24,860	(24,860)	-	-
Due from primary government	-	-	-	38,774
Prepaid items	-	1,290	1,290	-
Restricted investments - USDA bond reserve	-	54,000	54,000	-
Capital assets not being depreciated	389,706	113,458	503,164	17,716
Net capital assets being depreciated	2,660,371	2,435,575	5,095,946	164,878
Total assets	<u>5,436,165</u>	<u>4,313,841</u>	<u>9,750,006</u>	<u>876,820</u>
<b>Deferred outflows of resources</b>				
Deferred amount relating to net pension liability	<u>105,947</u>	<u>64,933</u>	<u>170,880</u>	<u>-</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Statement of Net Position**  
**June 30, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Liabilities</b>				
Accounts payable	\$ 100,011	\$ 2,500	\$ 102,511	\$ 2,716
Accrued and other liabilities	3,919	7,362	11,281	-
Due to component unit	2,177	36,597	38,774	-
Unearned revenue	2,200	12,100	14,300	-
Noncurrent liabilities				
Debt due within one year	86,490	24,000	110,490	-
Debt due in more than one year	705,000	557,000	1,262,000	-
Net pension liability	482,390	295,660	778,050	-
Total OPEB liability	<u>180,204</u>	<u>120,136</u>	<u>300,340</u>	<u>-</u>
Total liabilities	<u>1,562,391</u>	<u>1,055,355</u>	<u>2,617,746</u>	<u>2,716</u>
<b>Net position</b>				
Net investment in capital assets	2,939,672	1,968,033	4,907,705	182,594
Restricted for:				
Mosquito control	2,027	-	2,027	-
Major streets	206,718	-	206,718	-
Local streets	132,245	-	132,245	-
Capital projects	117,872	-	117,872	-
Library	155,299	-	155,299	-
Boat access and harbor	-	75,000	75,000	-
Unrestricted	<u>425,888</u>	<u>1,280,386</u>	<u>1,706,274</u>	<u>691,510</u>
Total net position	<u>\$ 3,979,721</u>	<u>\$ 3,323,419</u>	<u>\$ 7,303,140</u>	<u>\$ 874,104</u>

See Accompanying Notes to the Financial Statements



**City of Au Gres**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Functions/Programs</b>								
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 217,763	\$ 18,562	\$ 53,032	\$ -	\$ (146,169)	\$ -	\$ (146,169)	\$ -
Public safety	113,028	250	-	-	(112,778)	-	(112,778)	-
Public works	317,397	67,469	135,543	26,839	(87,546)	-	(87,546)	-
Community and economic development	600	-	-	-	(600)	-	(600)	-
Recreation and culture	165,828	-	5,570	-	(160,258)	-	(160,258)	-
Interest on long-term debt	25,388	-	-	-	(25,388)	-	(25,388)	-
Total governmental activities	<u>840,004</u>	<u>86,281</u>	<u>194,145</u>	<u>26,839</u>	<u>(532,739)</u>	<u>-</u>	<u>(532,739)</u>	<u>-</u>
<b>Business-type activities</b>								
Sewer	310,726	263,792	-	-	-	(46,934)	(46,934)	-
Water	303,110	282,870	-	-	-	(20,240)	(20,240)	-
Park	146,310	200,176	-	-	-	53,866	53,866	-
Boat access and harbor	43,569	80,000	-	132,128	-	168,559	168,559	-
Total business-type activities	<u>803,715</u>	<u>826,838</u>	<u>-</u>	<u>132,128</u>	<u>-</u>	<u>155,251</u>	<u>155,251</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 1,643,719</u>	<u>\$ 913,119</u>	<u>\$ 194,145</u>	<u>\$ 158,967</u>	<u>(532,739)</u>	<u>155,251</u>	<u>(377,488)</u>	<u>-</u>
<b>Component unit</b>								
Tax Increment Financing Authority	<u>\$ 171,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(171,084)</u>
<b>General revenues</b>								
Property taxes					405,782	-	405,782	260,096
State shared revenue					86,842	-	86,842	-
Unrestricted investment earnings					15,065	14,236	29,301	6,736
Miscellaneous					16,904	74,684	91,588	45,725
Transfers					(74,525)	74,525	-	-
Total general revenues and transfers					<u>450,068</u>	<u>163,445</u>	<u>613,513</u>	<u>312,557</u>
Change in net position					(82,671)	318,696	236,025	141,473
Net position - beginning of year					<u>4,062,392</u>	<u>3,004,723</u>	<u>7,067,115</u>	<u>732,631</u>
<b>Net position - end of year</b>					<u>\$ 3,979,721</u>	<u>\$ 3,323,419</u>	<u>\$ 7,303,140</u>	<u>\$ 874,104</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2019**

	Special Revenue Funds			Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street Fund	Local Street Fund			
<b>Assets</b>						
Cash and cash equivalents	\$ 731,756	\$ 261,970	\$ 193,366	\$ 655,145	\$ 233,832	\$ 2,076,069
Investments	-	-	-	-	36,589	36,589
Receivables						
Taxes	600	-	-	-	9,091	9,691
Customers	10,226	-	-	-	-	10,226
Due from other units of government	14,677	14,043	8,174	-	-	36,894
Due from other funds	38,709	-	-	-	-	38,709
<b>Total assets</b>	<b>\$ 795,968</b>	<b>\$ 276,013</b>	<b>\$ 201,540</b>	<b>\$ 655,145</b>	<b>\$ 279,512</b>	<b>\$ 2,208,178</b>
<b>Liabilities</b>						
Accounts payable	\$ 100,011	\$ -	\$ -	\$ -	\$ -	\$ 100,011
Due to other funds	-	-	-	550	68	618
Due to component unit	2,177	-	-	-	-	2,177
Unearned revenue	2,200	-	-	-	-	2,200
<b>Total liabilities</b>	<b>104,388</b>	<b>-</b>	<b>-</b>	<b>550</b>	<b>68</b>	<b>105,006</b>
<b>Deferred inflows of resources</b>						
Property taxes	-	-	-	-	9,091	9,091
<b>Fund balances</b>						
Restricted for						
Mosquito control	-	-	-	-	2,027	2,027
Major streets	-	276,013	-	-	-	276,013
Local streets	-	-	201,540	-	-	201,540
Police protection	-	-	-	-	4,246	4,246
Capital projects	-	-	-	654,595	117,872	772,467
Library	-	-	-	-	146,208	146,208
Unassigned						
General	691,580	-	-	-	-	691,580
<b>Total fund balances</b>	<b>691,580</b>	<b>276,013</b>	<b>201,540</b>	<b>654,595</b>	<b>270,353</b>	<b>2,094,081</b>
<b>Total liabilities, deferred inflows of resources,     and fund balances</b>	<b>\$ 795,968</b>	<b>\$ 276,013</b>	<b>\$ 201,540</b>	<b>\$ 655,145</b>	<b>\$ 279,512</b>	<b>\$ 2,208,178</b>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Position of Governmental Activities**  
**June 30, 2019**

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<b>Total fund balances for governmental funds</b>	<b>\$ 2,094,081</b>
Total net position for governmental activities in the statement of net position is different because	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	2,925,379
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	9,091
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(3,919)
Compensated absences	(26,490)
Deferred outflows of resources	
Deferred outflows of resources resulting from net pension liability	105,947
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	(765,000)
Net pension liability	(482,390)
Total OPEB liability	(180,204)
Internal service funds are included as part of governmental activities.	<u>303,226</u>
<b>Net position of governmental activities</b>	<b><u>\$ 3,979,721</u></b>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

	<u>Special Revenue Funds</u>				Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Capital Projects Fund</u>		
<b>Revenues</b>						
Taxes	\$ 273,103	\$ -	\$ -	\$ -	\$ 133,447	\$ 406,550
Licenses and permits	9,669	-	-	-	-	9,669
State revenue sharing	84,936	-	-	-	1,906	86,842
Other state grants	-	83,834	64,926	-	250	149,010
Local contributions	56,104	2,000	-	-	-	58,104
Charges for services	61,063	9,663	-	-	-	70,726
Interest income	5,615	553	362	7,029	3,559	17,118
Rental income	5,740	-	-	-	-	5,740
Other revenue	16,725	-	11,622	-	550	28,897
Investment loss	-	-	-	-	(1,197)	(1,197)
Total revenues	<u>512,955</u>	<u>96,050</u>	<u>76,910</u>	<u>7,029</u>	<u>138,515</u>	<u>831,459</u>
<b>Expenditures</b>						
Current						
General government	131,350	-	-	-	-	131,350
Public safety	495	-	-	-	64,589	65,084
Public works	113,792	31,054	15,438	-	-	160,284
Community and economic development	476	-	-	-	-	476
Recreation and culture	8,417	-	-	-	70,849	79,266
Other functions	113,444	-	-	-	-	113,444
Capital outlay	2,237	25,000	49,805	134,772	4,799	216,613
Debt service						
Principal retirement	60,000	-	-	-	-	60,000
Interest and fiscal charges	25,125	-	-	-	-	25,125
Total expenditures	<u>455,336</u>	<u>56,054</u>	<u>65,243</u>	<u>134,772</u>	<u>140,237</u>	<u>851,642</u>
Excess (deficiency) of revenues over expenditures	<u>57,619</u>	<u>39,996</u>	<u>11,667</u>	<u>(127,743)</u>	<u>(1,722)</u>	<u>(20,183)</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

	<u>Special Revenue Funds</u>					
	<u>General</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>			
<b>Other financing sources (uses)</b>						
Transfers in	\$ 15,000	\$ -	\$ 39,075	\$ -	\$ -	\$ 54,075
Transfers out	(108,408)	(20,192)	-	-	-	(128,600)
Total other financing sources and (uses)	<u>(93,408)</u>	<u>(20,192)</u>	<u>39,075</u>	<u>-</u>	<u>-</u>	<u>(74,525)</u>
Net change in fund balance	(35,789)	19,804	50,742	(127,743)	(1,722)	(94,708)
Fund balance - beginning of year	<u>727,369</u>	<u>256,209</u>	<u>150,798</u>	<u>782,338</u>	<u>272,075</u>	<u>2,188,789</u>
<b>Fund balance - end of year</b>	<u>\$ 691,580</u>	<u>\$ 276,013</u>	<u>\$ 201,540</u>	<u>\$ 654,595</u>	<u>\$ 270,353</u>	<u>\$ 2,094,081</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2019**

<b>Net change in fund balances - Total governmental funds</b>	<b>\$ (94,708)</b>
<p>Total change in net position reported for governmental activities in the statement of activities is different because Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Depreciation expense	(165,807)
Capital outlay	168,277
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	
Property taxes	(768)
<p>Expenses are recorded when incurred in the statement of activities</p>	
Accrued interest	185
Compensated absences	(20)
<p>The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.</p>	
Net change in net pension liability	(91,267)
Net change in deferred outflow of resources related to the net pension liability	77,321
Net change in deferred inflow of resources related to the net pension liability	16,489
<p>The statement of net position reports the total OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.</p>	
Net change in total OPEB liability	(48,804)
<p>Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>	
Repayments of long-term debt	60,000
Internal service funds are also included as governmental activities	(3,569)
<b>Change in net position of governmental activities</b>	<b><u>\$ (82,671)</u></b>

See Accompanying Notes to the Financial Statements

**City of Au Gres  
Proprietary Funds  
Statement of Net Position  
June 30, 2019**

	Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 480,277	\$ 777,707	\$ 182,796	\$ 83,220	\$ 1,524,000	\$ 191,759
Receivables						
Customers	46,845	45,609	-	75,000	167,454	-
Accrued interest and other	-	182	-	-	182	-
Due from other units of government	-	3,274	-	39,468	42,742	-
Prepaid items	-	-	1,290	-	1,290	-
Total current assets	<u>527,122</u>	<u>826,772</u>	<u>184,086</u>	<u>197,688</u>	<u>1,735,668</u>	<u>191,759</u>
Noncurrent assets						
Investments - USDA bond reserve	-	54,000	-	-	54,000	-
Non-depreciable capital assets	15,663	-	500	97,295	113,458	-
Depreciable capital assets, net	<u>1,217,240</u>	<u>1,149,513</u>	<u>32,433</u>	<u>36,389</u>	<u>2,435,575</u>	<u>124,698</u>
Total noncurrent assets	<u>1,232,903</u>	<u>1,203,513</u>	<u>32,933</u>	<u>133,684</u>	<u>2,603,033</u>	<u>124,698</u>
 Total assets	 <u>1,760,025</u>	 <u>2,030,285</u>	 <u>217,019</u>	 <u>331,372</u>	 <u>4,338,701</u>	 <u>316,457</u>
<b>Deferred outflows of resources</b>						
Deferred amount relating to net pension liability	<u>23,923</u>	<u>23,924</u>	<u>17,086</u>	<u>-</u>	<u>64,933</u>	<u>-</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2019**

	Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	
<b>Liabilities</b>						
Current liabilities						
Accounts payable	\$ 2,500	\$ -	\$ -	\$ -	\$ 2,500	\$ -
Accrued and other liabilities	-	7,362	-	-	7,362	-
Due to other funds	108	2,022	-	35,961	38,091	-
Due to component unit	-	-	-	36,597	36,597	-
Unearned revenue	6,050	6,050	-	-	12,100	-
Current portion of noncurrent liabilities	-	24,000	-	-	24,000	-
Total current liabilities	<u>8,658</u>	<u>39,434</u>	<u>-</u>	<u>72,558</u>	<u>120,650</u>	<u>-</u>
Noncurrent liabilities						
Long-term debt net of current portion	-	557,000	-	-	557,000	-
Net pension liability	108,927	108,928	77,805	-	295,660	-
Total OPEB liability	60,068	60,068	-	-	120,136	-
Total noncurrent liabilities	<u>168,995</u>	<u>725,996</u>	<u>77,805</u>	<u>-</u>	<u>972,796</u>	<u>-</u>
Total liabilities	<u>177,653</u>	<u>765,430</u>	<u>77,805</u>	<u>72,558</u>	<u>1,093,446</u>	<u>-</u>
<b>Net position</b>						
Net investment in capital assets	1,232,903	568,513	32,933	133,684	1,968,033	124,698
Restricted for						
Boat access and harbor	-	-	-	75,000	75,000	-
Unrestricted	<u>373,392</u>	<u>720,266</u>	<u>123,367</u>	<u>50,130</u>	<u>1,267,155</u>	<u>191,759</u>
Total net position	<u>\$ 1,606,295</u>	<u>\$ 1,288,779</u>	<u>\$ 156,300</u>	<u>\$ 258,814</u>	<u>3,310,188</u>	<u>\$ 316,457</u>
Some amounts reported for business-type activities in the statement of net position are different because certain internal service fund assets and liabilities are reported with business-type activities					<u>13,231</u>	
<b>Net position of business-type activities</b>					<u>\$ 3,323,419</u>	

See Accompanying Notes to the Financial Statements



**City of Au Gres**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2019**

	Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	
<b>Operating revenue</b>						
Customer fees	\$ 263,792	\$ 282,870	\$ 200,176	\$ 80,000	\$ 826,838	\$ -
Billings to other funds	-	-	-	-	-	46,221
Rental income	-	6,600	-	-	6,600	-
Other revenue	<u>13,664</u>	<u>51,355</u>	<u>3,043</u>	<u>22</u>	<u>68,084</u>	<u>10,082</u>
Total operating revenue	<u>277,456</u>	<u>340,825</u>	<u>203,219</u>	<u>80,022</u>	<u>901,522</u>	<u>56,303</u>
<b>Operating expenses</b>						
Personnel services	132,531	95,049	66,168	7,245	300,993	15,619
Supplies	30,161	38,310	20,051	3,953	92,475	10,434
Contractual services	12,562	10,584	13,885	3,996	41,027	-
Utilities	38,242	17,639	29,760	1,637	87,278	-
Repairs and maintenance	9,182	32,665	11,867	-	53,714	3,000
Other expenses	8,403	6,130	722	26,738	41,993	-
Depreciation	<u>79,097</u>	<u>71,571</u>	<u>3,857</u>	<u>-</u>	<u>154,525</u>	<u>32,885</u>
Total operating expenses	<u>310,178</u>	<u>271,948</u>	<u>146,310</u>	<u>43,569</u>	<u>772,005</u>	<u>61,938</u>
Operating income (loss)	<u>(32,722)</u>	<u>68,877</u>	<u>56,909</u>	<u>36,453</u>	<u>129,517</u>	<u>(5,635)</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2019**

	Enterprise Funds					
	Sewer	Water	Park	Boat Access and Harbor	Total	Internal Service Fund
<b>Nonoperating revenue (expenses)</b>						
Interest income	\$ 4,701	\$ 7,698	\$ 1,129	\$ 708	\$ 14,236	\$ 1,167
Gain on sale of assets	-	-	-	-	-	300
Interest expense	-	(30,663)	-	-	(30,663)	(448)
Total nonoperating revenues (expenses)	<u>4,701</u>	<u>(22,965)</u>	<u>1,129</u>	<u>708</u>	<u>(16,427)</u>	<u>1,019</u>
Income (loss) before transfers and capital contributions	(28,021)	45,912	58,038	37,161	113,090	(4,616)
Capital contributions	-	-	-	132,128	132,128	-
Transfers in	-	-	-	89,525	89,525	-
Transfers out	(6,300)	(8,700)	-	-	(15,000)	-
Change in net position	(34,321)	37,212	58,038	258,814	319,743	(4,616)
Net position - beginning of year	<u>1,640,616</u>	<u>1,251,567</u>	<u>98,262</u>	<u>-</u>	<u>2,990,445</u>	<u>321,073</u>
<b>Net position - end of year</b>	<u>\$ 1,606,295</u>	<u>\$ 1,288,779</u>	<u>\$ 156,300</u>	<u>\$ 258,814</u>		<u>\$ 316,457</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities					<u>(1,047)</u>	
<b>Change in net position of business-type activities</b>					<u>\$ 318,696</u>	

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

	Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	
<b>Cash flows from operating activities</b>						
Receipts from customers	\$ 279,639	\$ 348,242	\$ 203,219	\$ 80,295	\$ 911,395	\$ 10,082
Receipts from interfund users	-	-	-	-	-	46,221
Receipts from other funds	108	2,022	-	35,961	38,091	-
Payments to other funds	(9,161)	(6,412)	-	-	(15,573)	(1,128)
Payments to suppliers	(77,709)	(85,604)	(77,985)	-	(241,298)	(13,516)
Payments to employees	(132,531)	(95,049)	(66,168)	(7,245)	(300,993)	(15,619)
Payments for interfund services used	(4,747)	(4,322)	-	-	(9,069)	-
Net cash provided by operating activities	<u>55,599</u>	<u>158,877</u>	<u>59,066</u>	<u>109,011</u>	<u>382,553</u>	<u>26,040</u>
<b>Cash flows from noncapital financing activities</b>						
Transfer from other funds	-	-	-	89,525	89,525	-
Transfers to other funds	(6,300)	(8,700)	-	-	(15,000)	-
Net cash provided (used) by noncapital financing activities	<u>(6,300)</u>	<u>(8,700)</u>	<u>-</u>	<u>89,525</u>	<u>74,525</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>						
Capital contributions	-	-	-	17,660	17,660	-
Purchases/construction of capital assets	(1,859)	(3,789)	(14,475)	(133,684)	(153,807)	(11,295)
Principal and interest paid on long-term debt	-	(53,663)	-	-	(53,663)	(448)
Proceeds from sale of capital assets	-	-	-	-	-	300
Net cash used by capital and related financing activities	<u>(1,859)</u>	<u>(57,452)</u>	<u>(14,475)</u>	<u>(116,024)</u>	<u>(189,810)</u>	<u>(11,443)</u>
<b>Cash flows from investing activities</b>						
Interest received	4,701	7,698	1,129	708	14,236	1,167
Net cash provided by investing activities	<u>4,701</u>	<u>7,698</u>	<u>1,129</u>	<u>708</u>	<u>14,236</u>	<u>1,167</u>
Net change in cash and cash equivalents	52,141	100,423	45,720	83,220	281,504	15,764
Cash and cash equivalents - beginning of year	428,136	677,284	137,076	-	1,242,496	175,995
<b>Cash and cash equivalents - end of year</b>	<u>\$ 480,277</u>	<u>\$ 777,707</u>	<u>\$ 182,796</u>	<u>\$ 83,220</u>	<u>\$ 1,524,000</u>	<u>\$ 191,759</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

	Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ (32,722)	\$ 68,877	\$ 56,909	\$ 36,453	\$ 129,517	\$ (5,635)
Adjustments to reconcile operating income (loss) to net cash from operating activities						
Depreciation and amortization expense	79,097	71,571	3,857	-	154,525	32,885
Noncash change in net pension liability	20,608	20,609	14,721	-	55,938	-
Noncash change in total OPEB liability	16,268	16,268	-	-	32,536	-
Changes in assets and liabilities						
Receivables (net)	2,183	4,920	-	-	7,103	-
Due from other units of government	-	2,497	-	-	2,497	-
Deferred outflows of resources	(17,459)	(17,460)	(12,471)	-	(47,390)	-
Accounts payable	400	-	(1,290)	-	(890)	(82)
Accrued and other liabilities	-	(292)	-	35,961	35,669	-
Due to other funds	(9,053)	(4,390)	-	36,597	23,154	(1,128)
Deferred inflows of resources	(3,723)	(3,723)	(2,660)	-	(10,106)	-
<b>Net cash provided by operating activities</b>	<u>\$ 55,599</u>	<u>\$ 158,877</u>	<u>\$ 59,066</u>	<u>\$ 109,011</u>	<u>\$ 382,553</u>	<u>\$ 26,040</u>

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**June 30, 2019**

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	Pension Trust Fund	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 7,700
Investments	398,174	-
Total assets	398,174	\$ 7,700
<b>Liabilities</b>		
Accrued and other liabilities	-	\$ 7,700
<b>Net position</b>		
Held in trust for pension benefits and other purposes	\$ 398,174	

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2019**

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	Pension Trust Fund
<b>Additions</b>	
Contributions	
Employer	\$ 18,919
Plan members	4,731
Total contributions	23,650
<b>Investment earnings</b>	
Change in market value	28,386
Total additions	52,036
<b>Deductions</b>	
Benefits	14,878
Change in net position	37,158
Net position - beginning of year	361,016
<b>Net position - end of year</b>	\$ 398,174

See Accompanying Notes to the Financial Statements

**City of Au Gres**  
**Notes to the Financial Statements**  
**June 30, 2019**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

City of Au Gres (the City) is governed by an elected five-member City Council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Unit – The component unit column in the entity wide financial statements include the financial data of the City’s Tax Increment Financing Authority. The members of the Governing Board of the Tax Increment Financing Authority are appointed by the City Council. The budgets and expenditures of the Tax Increment Financing Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Tax Increment Financing Authority. The Tax Increment Financing Authority does not issue any other form of financial statements except as contained in the June 30, 2019 annual financial statements.

**Government-Wide and Fund Financial Statements**

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

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they

**City of Au Gres**  
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are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state-shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state-shared gas and weight taxes.

The Capital Projects Fund records the revenue and expense related to capital projects.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

The Park Fund accounts for the costs of maintaining a park and recreation program.

The Boat Access and Harbor Fund accounts for the costs of maintaining the boat launch and harbor areas.

Additionally, the government reports the following:

The Nonmajor Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Nonmajor Capital Projects Fund records the revenue and expense related to the library building.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Pension Trust Fund accounts for the activities of the defined contribution pension plan which accumulates resources for pension payments to qualified employees.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units and individuals.



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As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

**Assets, Liabilities, and Net Position or Equity**

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The 2018 taxable valuation of the government totaled \$28,040,362, on which ad valorem taxes consisted of 12.4445 mills for operating purposes, 3.0613 for police protection services, 1.2500 for mosquito control service, and 1.0000 for county roads. This resulted in \$235,024 for operating expenses, \$57,810 for police protection, \$23,603 for mosquito control services, and \$18,883 for county roads.

In addition, the Library fund receives an annual disbursement from property taxes collected by the Iosco-Arenac District Library. During the year the City received \$52,034.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments totaling \$54,000.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-

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type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years
Land Improvements	10 to 20 years
Roads	25 years
Other Infrastructure	20 to 40 years
Heavy Duty Equipment	20 to 40 years
Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. The City reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

The City also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in the following year.

Compensated absences – Full time employees receive 10 sick days for each full year of service and can carry forward 75 days each year. The excess of 75 days will be paid one-half at each anniversary date. The City will also pay one-half of accumulated sick leave upon retirement or death. Other reasons for termination will not be reimbursed for accumulated sick leave. There is no contractual provision for payment of unused vacation. They may be used for vacation only. Employees are also able to comp their overtime hours. They are able to carry over up to 80 hours each fiscal year. Upon retirement or death, the employee will be paid out 100% of the amount owed at 1.5 times the current hourly rate. All sick and comp pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for terminations as of year end.

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

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

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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 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 to 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.

Other postemployment benefits (OPEB) – The City's Benefit Plan ("the Plan") recognizes benefit payments when due and payable in accordance with the benefit terms.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. The City reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

Fund equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose

Committed – amounts constrained on use imposed by the City's highest level of decision-making, its City Council. A fund balance commitment may be established, modified, or rescinded by a resolution of the City Council.

Assigned – amounts intended to be used for specific purposes, as determined by City Council. The City Council has granted the City Manager the authority to commit funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the government's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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**Use of Estimates**

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

**Adoption of New Accounting Standards**

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

**Upcoming Accounting and Reporting Changes**

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources

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measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The City is evaluating the impact that the above GASBs will have on its financial reporting.

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

**Budgetary Information**

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to June 30.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Reserve for Debt Service**

The loan agreement covering the note payable to Rural Development requires that the City maintain a reserve account in the amount of the most recent bond payment. At year end, the reserve amount was in compliance with the minimum balance as set forth by Rural Development.

**Note 3 - Deposits and Investments**

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments	Restricted Investments	Total
Governmental activities	\$ 2,267,828	\$ 36,589	\$ -	\$ 2,304,417
Business-type activities	<u>1,524,000</u>	<u>-</u>	<u>54,000</u>	<u>1,578,000</u>
Total primary government	3,791,828	36,589	54,000	3,882,417
Fiduciary funds	7,700	398,174	-	405,874
Component unit	<u>655,452</u>	<u>-</u>	<u>-</u>	<u>655,452</u>
Total	<u>\$ 4,454,980</u>	<u>\$ 434,763</u>	<u>\$ 54,000</u>	<u>\$ 4,943,743</u>

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The break down between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Unit	Total
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 3,845,578	\$ 7,700	\$ 655,452	\$ 4,508,730
Investments in securities, mutual funds and similar vehicles	36,589	398,174	-	434,763
Petty cash and cash on hand	250	-	-	250
	<u>\$ 3,882,417</u>	<u>\$ 405,874</u>	<u>\$ 655,452</u>	<u>\$ 4,943,743</u>

As of yearend, the government had the following investments:

Investment	Fair Value	Rating
Common stock	\$ 36,589	Not rated
Mutual funds	<u>398,174</u>	Not rated
	<u>\$ 434,763</u>	

The stock was donated to the City to cover costs of the Library. The stock can be sold or used to generate investment income. There were no restrictions on its use other than to be used for the Library. The stock certificates are held by the City.

*Interest rate risk* – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

*Credit risk* – State statutes and the government’s investment policy authorize the government to make deposits and invest in the accounts

of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund’s assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of yearend, \$4,328,552 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Note 4 - Fair Value Measurements**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active

**City of Au Gres**  
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markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2019:

- Common stocks of \$36,589 are valued using quoted market prices (Level 1 inputs)
- Mutual funds and similar vehicles of \$398,174 are valued using quoted market prices (Level 1 inputs)

**Note 5 - Receivables**

Receivables as of year-end for the governmental and business-type activities in the aggregate are as follows:

<b>Primary government</b>	
Taxes	\$ 9,691
Customers	177,680
Accrued interest and other	182
	<u>\$ 187,553</u>

**Note 6 - Unearned Revenue**

Governmental funds and proprietary funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the unearned revenue is as follows:

<b>Primary government</b>	
Tower rental	\$ <u>14,300</u>

**Note 7 - Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 389,706	\$ -	\$ -	\$ 389,706
Capital assets being depreciated				
Land improvements	287,381	-	-	287,381
Infrastructure	2,814,222	121,678	-	2,935,900
Buildings, additions and improvements	1,200,721	2,749	-	1,203,470
Machinery and equipment	639,319	55,145	-	694,464
Total capital assets being depreciated	<u>4,941,643</u>	<u>179,572</u>	<u>-</u>	<u>5,121,215</u>
Less accumulated depreciation for				
Land improvements	282,404	983	-	283,387
Infrastructure	933,082	112,975	-	1,046,057
Buildings, additions and improvements	628,494	33,599	-	662,093
Machinery and equipment	418,172	51,135	-	469,307
Total accumulated depreciation	<u>2,262,152</u>	<u>198,692</u>	<u>-</u>	<u>2,460,844</u>
Net capital assets being depreciated	<u>2,679,491</u>	<u>(19,120)</u>	<u>-</u>	<u>2,660,371</u>
Governmental activities capital assets, net	<u>\$ 3,069,197</u>	<u>\$ (19,120)</u>	<u>\$ -</u>	<u>\$ 3,050,077</u>

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	Beginning Balance	Increases/ Transfers	Decreases/ Transfers	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 16,163	\$ -	\$ -	\$ 16,163
Construction in progress	-	97,295	-	97,295
Total capital assets not being depreciated	<u>16,163</u>	<u>97,295</u>	<u>-</u>	<u>113,458</u>
Capital assets being depreciated				
Land improvements	318,545	48,019	-	366,564
Buildings, additions and improvements	32,088	2,845	-	34,933
Machinery and equipment	64,492	-	-	64,492
Vehicles	32,056	-	-	32,056
Water system	3,009,141	3,789	-	3,012,930
Sewer system	3,661,108	1,859	-	3,662,967
Total capital assets being depreciated	<u>7,117,430</u>	<u>56,512</u>	<u>-</u>	<u>7,173,942</u>
Less accumulated depreciation for				
Land improvements	313,660	971	-	314,631
Buildings, additions and improvements	29,114	95	-	29,209
Machinery and equipment	38,578	3,957	-	42,535
Vehicles	27,241	811	-	28,052
Water system	1,796,661	70,760	-	1,867,421
Sewer system	2,378,588	77,931	-	2,456,519
Total accumulated depreciation	<u>4,583,842</u>	<u>154,525</u>	<u>-</u>	<u>4,738,367</u>
Net capital assets being depreciated	<u>2,533,588</u>	<u>(98,013)</u>	<u>-</u>	<u>2,435,575</u>
Business-type capital assets, net	<u>\$ 2,549,751</u>	<u>\$ (718)</u>	<u>\$ -</u>	<u>\$ 2,549,033</u>

Capital asset activity of the component unit for the current year is as follows:

	Beginning Balance	Increases/ Transfers	Decreases/ Transfers	Ending Balance
<b>Component Unit</b>				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 17,716	\$ -	\$ 17,716
Total capital assets not being depreciated	<u>-</u>	<u>17,716</u>	<u>-</u>	<u>17,716</u>
Capital assets being depreciated				
Buildings, additions and improvements	122,373	46,630	-	169,003
Machinery and equipment	36,142	-	-	36,142
Vehicles and equipment	47,326	-	-	47,326
Total capital assets being depreciated	<u>205,841</u>	<u>46,630</u>	<u>-</u>	<u>252,471</u>
Less accumulated depreciation for				
Buildings, additions and improvements	32,122	6,573	-	38,695
Machinery and equipment	15,175	1,442	-	16,617
Vehicles and equipment	28,667	3,614	-	32,281
Total accumulated depreciation	<u>75,964</u>	<u>11,629</u>	<u>-</u>	<u>87,593</u>
Net capital assets being depreciated	<u>129,877</u>	<u>35,001</u>	<u>-</u>	<u>164,878</u>
Component unit capital assets, net	<u>\$ 129,877</u>	<u>\$ 52,717</u>	<u>\$ -</u>	<u>\$ 182,594</u>



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

**Governmental activities**

General government	\$ 36,478
Public safety	14,923
Public works	49,742
Recreation and culture	64,664
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>32,885</u>
Total governmental activities	<u>198,692</u>

**Business-type activities**

Sewer	79,097
Water	71,571
Park	<u>3,857</u>
Total business-type activities	<u>154,525</u>

Total primary government \$ 353,217

**Component unit**

Tax Increment Financing Authority	<u>\$ 11,629</u>
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**Construction Commitment**

The City has an active construction project as of June 30, 2019. At year end, the City's commitment with the contractor is as follows:

**Business-type activities:**

Project	Total Contract	Construction Commitment at Year End
Farmers Market Pavillion	<u>\$ 95,418</u>	<u>\$ 60,450</u>

**Note 8 - Interfund Receivables, Payable, and Transfers**

The composition of interfund balances is as follows:

**Primary Government**

Receivable Fund	Payable Fund	Amount
General Fund	Boat Access and Harbor Fund	\$ 35,961
General Fund	Water Fund	2,022
General Fund	Capital Projects Fund	550
General Fund	Sewer Fund	108
General Fund	Other Aggregate Funds	<u>68</u>
		<u>\$ 38,709</u>

**Component Unit**

Receivable Fund	Payable Fund	Amount
Tax Increment Financing Authority Fund	Boat Access and Harbor Fund	\$ 36,597
Tax Increment Financing Authority Fund	General Fund	<u>2,177</u>
		<u>\$ 38,774</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General Fund	Boat Access and Harbor Fund	\$ 89,525
Major Street Fund	Local Street Fund	20,192
General Fund	Local Street Fund	18,883
Water Fund	General Fund	8,700
Sewer Fund	General Fund	<u>6,300</u>
		<u>\$ 143,600</u>

**City of Au Gres**  
**Notes to the Financial Statements**  
**June 30, 2019**

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The transfer between the general fund and the boat access and harbor fund was to transfer funds for projects at the harbor. The transfer between the general fund and the local street fund and the transfer between the major street fund and local street fund was to transfer funds for road projects. The transfers between water and sewer and general fund was to make contributions toward debt service expenditures.

**Note 9 - Operating Lease**

The government leases a copy machine, postage machine and billboard under noncancelable operating leases. Total costs for the leases was \$5,860 for the year ended June 30, 2019. The future minimum lease payments for the lease are as follows:

<u>Year ending June 30,</u>	
2020	\$ 2,399
2021	<u>170</u>
	<u>\$ 2,569</u>

**City of Au Gres**  
**Notes to the Financial Statements**  
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**Note 10 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Secured	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>										
Bonds payable										
General obligation bonds										
City improvement bonds	\$ 995,000	5/1/30	Secured	1.85-3.70%	\$60,000-\$80,000	\$ 825,000	\$ -	\$ 60,000	\$ 765,000	\$ 60,000
Compensated absences						<u>26,470</u>	<u>27,790</u>	<u>27,770</u>	<u>26,490</u>	<u>26,490</u>
Total governmental activities						<u>\$ 851,470</u>	<u>\$ 27,790</u>	<u>\$ 87,770</u>	<u>\$ 791,490</u>	<u>\$ 86,490</u>
<b>Business-type activities</b>										
Bonds payable										
Revenue bonds										
Water	\$ 913,000	4/1/35	Secured	5.125%	\$24,000 - \$51,000	<u>\$ 604,000</u>	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ 581,000</u>	<u>\$ 24,000</u>

**City of Au Gres**  
**Notes to the Financial Statements**  
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Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 60,000	\$ 23,516	\$ 24,000	\$ 29,776
2021	60,000	22,256	26,000	28,546
2022	65,000	20,876	27,000	27,214
2023	65,000	19,250	28,000	25,830
2024	65,000	-	30,000	24,396
2025-2029	370,000	66,218	173,000	97,426
2030-2034	80,000	8,840	222,000	48,382
2035	-	-	51,000	2,612
	<u>\$ 765,000</u>	<u>\$ 160,956</u>	<u>\$ 581,000</u>	<u>\$ 284,182</u>

**Compensated Absences**

Accrued compensated absences at year end, consisted of accrued employee time benefits. The entire vested balance is considered long-term as the amount expended each year is expected to be offset by the time earned.

**Note 11 - Jointly Governed Organizations**

**Au Gres-Sims-Whitney Fire and Rescue Authority**

The City of Au Gres is a member of an inter-governmental agreement to operate a joint fire and rescue authority with Sims, Au Gres, and Whitney Townships. The participating communities provide annual funding for its operations. During the current year, the City's portion was fulfilled through property taxes of \$18,703 for operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended March 31, 2018 can be obtained from the administrative offices at: 201 N. Court, Au Gres, Michigan 48703.

**Note 12 - Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 13 – Employee Retirement and Benefit Systems**

**Defined benefit pension plan**

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer, statewide public employee defined benefit pension plan that covers all employees of the government. The plan was established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Benefits provided – Benefits provided include plans with multipliers of 2.50%. Vesting periods range from 6 to 10 years. Normal retirement age is 60 with early retirement at 50 with 25 years of service and 55 with 15 years of service. Final average compensation is calculated based on 3 years. Member contributions are 0%.

**City of Au Gres**  
**Notes to the Financial Statements**  
**June 30, 2019**

Employees covered by benefit terms – At the December 31, 2018 valuation date, the following employees were covered by benefit terms:

Inactive employees entitles to but not currently receiving benefits	9	
Active employees	1	
	10	

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by 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 are a flat \$10,208 per month. The pension plan is closed to new employees.

Net pension liability – The employer’s net pension liability was measured as of December 31, 2018, 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, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement include: 1) Inflation 2.5%; 2) Salary increases 3.75% in the long-term; 3) Investment rate of return of 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the 2014 Group Annuity Mortality Table of a 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 or arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Allocation Gross Rate Of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-term Expected Real Rate of Return
Global equity	55.50%	8.65%	4.80%	2.50%	3.41%
Global fixed income	18.50%	3.76%	0.70%	2.50%	0.23%
Real assets	13.50%	9.72%	1.31%	2.50%	0.97%
Diversifying strategies	12.50%	7.50%	0.94%	2.50%	0.63%
	100.00%		7.75%		5.25%

Discount rate – The discount rate used to measure the total pension liability is 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plans fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Au Gres**  
**Notes to the Financial Statements**  
**June 30, 2019**

**Total Pension Liability**

Service cost	\$ 5,191
Interest on the total pension liability	169,852
Experience differences	17,332
Benefit payments and refunds	<u>(215,844)</u>
Net change in total pension liability	(23,469)
Total pension liability - beginning	<u>2,228,474</u>
Total pension liability - ending (a)	<u>\$ 2,205,005</u>

**Plan Fiduciary Net Position**

Employer contributions	\$ 107,418
Pension plan net investment income (loss)	(59,231)
Benefit payments and refunds	(215,844)
Pension plan administrative expense	<u>(3,017)</u>
Net change in plan fiduciary net position	(170,674)
Plan fiduciary net position - beginning	<u>1,597,629</u>
Plan fiduciary net position - ending (b)	<u>1,426,955</u>
Net pension liability (a-b)	<u>\$ 778,050</u>

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 8.0%, as well as what the employer’s net pension liability would be using a discount rate that is 1% point lower (7%) or 1% higher (9%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	<u>\$ 962,028</u>	<u>\$ 778,050</u>	<u>\$ 617,609</u>

Pension expense and deferred outflows of resources – For the year ended June 30, 2019 the employer recognized pension expense of \$118,396. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Total to Amortize</u>
Net difference between projected and actual earning on plan investments	\$ 109,632	\$ 109,632
Contributions subsequent to the measurement date*	<u>61,248</u>	<u>-</u>
Total	<u>\$ 170,880</u>	<u>\$ 109,632</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 subsequent year.

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

<u>Year ended June 30,</u>	
2020	\$ 41,465
2021	10,818
2022	20,832
2023	<u>36,517</u>
	<u>\$ 109,632</u>

**Defined Contribution Pension Plan**

The City of Au Gres Public Employees Retirement System (PERS) is a single employer PERS that administers the City’s defined contribution pension plan for its employees. The PERS prepares and distributes separate financial statements as required by state statute

**City of Au Gres**  
**Notes to the Financial Statements**  
**June 30, 2019**

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but its financial statements are also included as an expendable trust fund of the City of Au Gres. The City of Au Gres is the only nonemployee contributor to the pension plan. Certain employees are covered by the defined contribution plan. As of June 30, 2019, the pension plan's membership was four employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by state statute, all full-time municipal employees of the City must participate in the pension plan from the date they are hired. The City is required to contribute an amount equal to 8.0% of the employee's gross earnings. For the year ended June 30, 2019, the City contributed \$19,178 and employees contributed \$4,795.

**Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The law was changed to allow trusts to be created for the plan assets, thereby insulating the assets from the unit of government's general creditors. The City's plan administrator, ICMA, created the trust and placed the assets of the plan within the trust. As a result, the plan assets are not shown on the City's financial statements to reflect that the City no longer has any fiduciary or administrative responsibility for the plan. For the year

ended June 30, 2019, the City contributed \$2,895 and employees contributed \$19,651.

**Note 14 - Other Postemployment Benefits**

Plan description – The City's Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City. Substantially all of the City's employees may become eligible for those benefits when the employee becomes eligible for the Michigan Employees' Retirement System, and retires from the City.

Benefits provided – The Plan provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the City pays 90% of the entire cost of health insurance premiums for the employee and their spouse upon reaching the age of 60 and 20 years of full time service.

Employees covered by benefit terms – At June 30, 2019, the plan membership consisted of the following:

Active employees	<u>3</u>
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Contributions –The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The City has made no contributions in advance.

Total OPEB liability – The total OPEB liability was measured as of June 30, 2019 as determined by an actuarial valuation as of that date, using the alternative measurement method.

Actuarial assumptions – The total OPEB liability was determined as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement.

**City of Au Gres**  
**Notes to the Financial Statements**  
**June 30, 2019**

**Assumptions:**

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	29 years, closed
Discount rate:	3.00%
Salary increases:	3.50%
Investment rate of return	3.00%
Retirement age	60
Mortality	RP-2014 Employee and Healthy Annuitant Tables with a 50/50 male and female blend
Healthcare Cost Trend Rate	Pre-65: 8.5% gradually decreasing .25% per year to an ultimate rate of 4.5% Post-65: 7.0% gradually decreasing .25% per year to an ultimate rate of 4.5%

Discount rate – The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates.

**Total OPEB Liability**

Service cost	\$ 11,297
Interest	6,704
Changes in assumptions	65,699
Benefit payments	<u>(2,360)</u>
Net change in total OPEB liability	81,340
Total OPEB liability - beginning	<u>219,000</u>
Total OPEB liability - ending	<u>\$ 300,340</u>

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.00%) or 1% higher (4.00%) than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 311,017</u>	<u>\$ 300,340</u>	<u>\$ 281,722</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if were calculated using healthcare cost trend rates that are 1% lower (7.5%) or 1% higher (9.5%) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 258,879</u>	<u>\$ 300,340</u>	<u>\$ 348,079</u>

**Note 15 - Contingent Liabilities**

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



**City of Au Gres**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 230,000	\$ 230,000	\$ 235,024	\$ 5,024
Other taxes	19,200	19,200	20,250	1,050
Penalties and interest	2,000	2,000	2,816	816
Administration fee	14,000	14,000	15,013	1,013
Licenses and permits	9,000	9,000	9,669	669
State revenue sharing	81,000	81,000	84,936	3,936
Local contributions	66,450	54,125	56,104	1,979
Charges for services	57,700	57,700	61,063	3,363
Interest income	500	500	5,615	5,115
Rental income	5,200	5,200	5,740	540
Other revenue	10,000	18,000	16,725	(1,275)
Transfer in	15,000	15,000	15,000	-
Total revenues	<u>510,050</u>	<u>505,725</u>	<u>527,955</u>	<u>22,230</u>
<b>Expenditures</b>				
General government				
City Council	4,700	6,200	4,982	(1,218)
Manager	17,800	30,700	26,060	(4,640)
Clerk	54,100	58,100	55,175	(2,925)
Board of review	2,100	2,100	1,918	(182)
Assessor	24,200	24,200	23,296	(904)
Elections	5,000	5,000	4,392	(608)
Buildings and grounds	11,700	11,700	9,125	(2,575)
Attorney	2,000	2,000	375	(1,625)
Cemetery	7,000	7,000	6,027	(973)
Total general government	<u>128,600</u>	<u>147,000</u>	<u>131,350</u>	<u>(15,650)</u>
Public safety				
Police	<u>300</u>	<u>300</u>	<u>495</u>	<u>195</u>

**City of Au Gres**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Public works				
Department of public works	\$ 41,500	\$ 41,500	\$ 30,733	\$ (10,767)
Drains	200	200	200	-
Street lighting	28,000	28,000	31,230	3,230
Trash removal	49,800	52,300	51,629	(671)
Total public works	<u>119,500</u>	<u>122,000</u>	<u>113,792</u>	<u>(8,208)</u>
Community and economic development				
Planning	<u>1,000</u>	<u>4,600</u>	<u>476</u>	<u>(4,124)</u>
Recreation and culture				
Parks and recreation	<u>11,200</u>	<u>11,200</u>	<u>8,417</u>	<u>(2,783)</u>
Other functions				
Insurance and bonds	15,000	15,000	13,512	(1,488)
Unallocated employee fringe benefits	<u>155,900</u>	<u>115,500</u>	<u>99,932</u>	<u>(15,568)</u>
Total other functions	<u>170,900</u>	<u>130,500</u>	<u>113,444</u>	<u>(17,056)</u>
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>2,237</u>	<u>237</u>
Debt service				
Principal retirement	72,313	60,000	60,000	-
Interest and fiscal charges	<u>25,625</u>	<u>25,625</u>	<u>25,125</u>	<u>(500)</u>
Total debt service	<u>97,938</u>	<u>85,625</u>	<u>85,125</u>	<u>(500)</u>
Transfers out	<u>18,000</u>	<u>107,525</u>	<u>108,408</u>	<u>883</u>
Total expenditures	<u>549,438</u>	<u>610,750</u>	<u>563,744</u>	<u>(47,006)</u>
Excess (deficiency) of revenues over expenditures	(39,388)	(105,025)	(35,789)	69,236
Fund balance - beginning of year	<u>727,369</u>	<u>727,369</u>	<u>727,369</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 687,981</u>	<u>\$ 622,344</u>	<u>\$ 691,580</u>	<u>\$ 69,236</u>

**City of Au Gres**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Other state grants	\$ 71,150	\$ 71,150	\$ 83,834	\$ 12,684
Local contributions	2,000	2,000	2,000	-
Charges for services	7,400	9,600	9,663	63
Interest income	150	450	553	103
Total revenues	<u>80,700</u>	<u>83,200</u>	<u>96,050</u>	<u>12,850</u>
<b>Expenditures</b>				
Current				
Public works	43,900	44,200	31,054	(13,146)
Capital outlay	25,000	25,000	25,000	-
Transfers out	15,000	22,500	20,192	(2,308)
Total expenditures	<u>83,900</u>	<u>91,700</u>	<u>76,246</u>	<u>(15,454)</u>
Excess (deficiency) of revenues over expenditures	(3,200)	(8,500)	19,804	28,304
Fund balance - beginning of year	<u>256,209</u>	<u>256,209</u>	<u>256,209</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u><u>\$ 253,009</u></u>	<u><u>\$ 247,709</u></u>	<u><u>\$ 276,013</u></u>	<u><u>\$ 28,304</u></u>

**City of Au Gres**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Other state grants	\$ 39,150	\$ 54,366	\$ 64,926	\$ 10,560
Interest income	100	100	362	262
Other revenue	-	11,700	11,622	(78)
Transfers in	<u>33,000</u>	<u>40,500</u>	<u>39,075</u>	<u>(1,425)</u>
Total revenues	<u>72,250</u>	<u>106,666</u>	<u>115,985</u>	<u>9,319</u>
<b>Expenditures</b>				
Current				
Public works	22,250	22,250	15,438	(6,812)
Capital outlay	<u>50,000</u>	<u>50,500</u>	<u>49,805</u>	<u>(695)</u>
Total expenditures	<u>72,250</u>	<u>72,750</u>	<u>65,243</u>	<u>(7,507)</u>
Excess of revenues over expenditures	-	33,916	50,742	16,826
Fund balance - beginning of year	<u>150,798</u>	<u>150,798</u>	<u>150,798</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u><u>\$ 150,798</u></u>	<u><u>\$ 184,714</u></u>	<u><u>\$ 201,540</u></u>	<u><u>\$ 16,826</u></u>

**City of Au Gres**  
**Required Supplementary Information**  
**Municipal Employees Retirement System of Michigan**  
**Schedule of Employer Contributions**  
**June 30, 2019**

**Schedule of Employer Contributions**

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 123,552	\$ 123,552	\$ -	\$ 48,395	255.30%
2016	65,232	65,232	-	48,962	133.23%
2017	71,256	71,256	-	49,517	143.90%
2018	84,810	84,810	-	48,531	174.75%
2019	122,496	122,496	-	49,586	247.04%

**Notes to Schedule of Employer Contributions**

Actuarially determined contribution amounts 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 Normal
Amortization method	Level Percent of Payroll, Closed
Remaining amortization period	8 - 10 years
Asset valuation method	5-year smoothed value of assets
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
Mortality	2014 Group Annuity Mortality Table of 50% male and 50% female blend

**City of Au Gres**  
**Required Supplementary Information**  
**Municipal Employees Retirement System of Michigan**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**June 30, 2019**

Fiscal year ended June 30,	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>					
Service cost	5,191	5,117	5,201	5,276	5,027
Interest on the total pension liability	169,852	172,169	174,415	167,238	169,385
Experience differences	17,332	9,556	8,195	26,413	-
Changes in actuarial assumptions	-	-	-	101,443	-
Other changes	-	-	(1)	5,224	5,293
Benefit payments and refunds	<u>(215,844)</u>	<u>(215,844)</u>	<u>(215,844)</u>	<u>(215,844)</u>	<u>(197,490)</u>
Net change in total pension liability	(23,469)	(29,002)	(28,034)	89,750	(17,785)
Total pension liability - beginning	<u>2,228,474</u>	<u>2,257,476</u>	<u>2,285,510</u>	<u>2,195,759</u>	<u>2,213,544</u>
Total pension liability - ending (a)	<u>2,205,005</u>	<u>2,228,474</u>	<u>2,257,476</u>	<u>2,285,509</u>	<u>2,195,759</u>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	107,418	84,810	71,256	65,232	123,552
Pension plan net investment income (loss)	(59,231)	195,927	165,606	(23,723)	105,864
Benefit payments and refunds	(215,844)	(215,844)	(215,844)	(215,844)	(197,490)
Pension plan administrative expense	<u>(3,017)</u>	<u>(3,115)</u>	<u>(3,278)</u>	<u>(3,577)</u>	<u>(3,869)</u>
Net change in plan fiduciary net position	(170,674)	61,778	17,740	(177,912)	28,057
Plan fiduciary net position - beginning	<u>1,597,629</u>	<u>1,535,851</u>	<u>1,518,111</u>	<u>1,696,023</u>	<u>1,667,966</u>
Plan fiduciary net position - ending (b)	<u>1,426,955</u>	<u>1,597,629</u>	<u>1,535,851</u>	<u>1,518,111</u>	<u>1,696,023</u>
Net pension liability (a-b)	<u>778,050</u>	<u>630,845</u>	<u>721,625</u>	<u>767,398</u>	<u>499,736</u>
Plan fiduciary net position as a percentage of total pension liability	64.71%	71.69%	68.03%	66.42%	77.24%
Covered payroll	\$ 49,248	\$ 48,547	\$ 49,345	\$ 50,249	\$ 47,877
Net pension liability as a percentage of covered employee payroll	1,579.86%	1,299.45%	1,462.41%	1,527.19%	1,043.79%

Note: GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

**City of Au Gres**  
**Required Supplementary Information**  
**Other Postemployment Benefits**  
**Schedule of Employer Contributions**  
**June 30, 2019**

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	\$ 32,558	\$ 20,493	\$ 12,065	N/A*	N/A*
2019	26,620	2,360	24,260	N/A*	N/A*

Note: GASB Statement No. 75 was implemented for the fiscal year ended June 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

\*Payroll is not a part of this calculation

**Notes to Schedule of Contributions**

Alternative measurement method valuation date: June 30, 2019

**Methods and assumptions used to determine contribution rates:**

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	29 years, closed
Discount rate	3.00%
Salary increases	3.50%
Investment rate of return	3.00%
Retirement age	60
Mortality	RP-2014 Employee and Healthy Annuitant Tables with a 50/50 male and female blend
Healthcare Cost Trend Rate	Pre-65: 8.5% gradually decreasing .25% per year to an ultimate rate of 4.5% Post-65: 7.0% gradually decreasing .25% per year to an ultimate rate of 4.5%

**City of Au Gres**  
**Required Supplementary Information**  
**Other Postemployment Benefits**  
**Schedule of Changes in Total OPEB Liability and Related Ratios**  
**June 30, 2019**

Fiscal year ended June 30,	2019	2018
<b>Total OPEB Liability</b>		
Service cost	\$ 11,297	\$ 10,203
Interest	6,704	5,985
Changes in assumptions	65,699	(30,695)
Benefit payments	(2,360)	(20,493)
Net change in total OPEB liability	81,340	(35,000)
Total OPEB liability - beginning	219,000	254,000
Total OPEB liability - ending (a)	\$ 300,340	\$ 219,000
Covered payroll	N/A*	N/A*
Total OPEB liability as a percentage of covered employee payroll	N/A*	N/A*

Note: GASB Statement No. 75 was implemented for the fiscal year ended June 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

\*Payroll is not a part of this calculation



**City of Au Gres**  
**Other Supplemental Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2019**

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Library	Mosquito	Police Fund	Library Building	
<b>Assets</b>					
Cash and cash equivalents	\$ 146,276	\$ 2,027	\$ 4,246	\$ 81,283	\$ 233,832
Investments	-	-	-	36,589	36,589
Receivables					
Taxes	9,091	-	-	-	9,091
<b>Total assets</b>	<u>\$ 155,367</u>	<u>\$ 2,027</u>	<u>\$ 4,246</u>	<u>\$ 117,872</u>	<u>\$ 279,512</u>
<b>Liabilities</b>					
Due to other funds	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68</u>
<b>Deferred inflows of resources</b>					
Property taxes	<u>9,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,091</u>
<b>Fund balances</b>					
Restricted for					
Mosquito control	-	2,027	-	-	2,027
Police protection	-	-	4,246	-	4,246
Capital projects	-	-	-	117,872	117,872
Library	<u>146,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,208</u>
Total fund balances	<u>146,208</u>	<u>2,027</u>	<u>4,246</u>	<u>117,872</u>	<u>270,353</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 155,367</u>	<u>\$ 2,027</u>	<u>\$ 4,246</u>	<u>\$ 117,872</u>	<u>\$ 279,512</u>

**City of Au Gres**  
**Other Supplemental Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Library	Mosquito	Police Fund	Library Building	
<b>Revenues</b>					
Taxes	\$ 52,034	\$ 23,603	\$ 57,810	\$ -	\$ 133,447
State revenue sharing	-	-	1,906	-	1,906
Other state grants	-	-	250	-	250
Interest income	1,252	103	181	2,023	3,559
Other revenue	35	-	40	475	550
Investment income (loss)	-	-	-	(1,197)	(1,197)
Total revenues	<u>53,321</u>	<u>23,706</u>	<u>60,187</u>	<u>1,301</u>	<u>138,515</u>
<b>Expenditures</b>					
Current					
Public safety	-	-	64,589	-	64,589
Recreation and culture	47,076	23,773	-	-	70,849
Capital outlay	-	-	-	4,799	4,799
Total expenditures	<u>47,076</u>	<u>23,773</u>	<u>64,589</u>	<u>4,799</u>	<u>140,237</u>
Excess (deficiency) of revenues over expenditures	6,245	(67)	(4,402)	(3,498)	(1,722)
Fund balance - beginning of year	<u>139,963</u>	<u>2,094</u>	<u>8,648</u>	<u>121,370</u>	<u>272,075</u>
<b>Fund balance - end of year</b>	<u>\$ 146,208</u>	<u>\$ 2,027</u>	<u>\$ 4,246</u>	<u>\$ 117,872</u>	<u>\$ 270,353</u>

**City of Au Gres**  
**Other Supplemental Information**  
**Component Unit - Tax Increment Financing Authority**  
**Balance Sheet**  
**June 30, 2019**

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	<u>Component Unit</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 655,452
Due from primary government	<u>38,774</u>
<b>Total assets</b>	<b><u>\$ 694,226</u></b>
<b>Liabilities</b>	
Accounts payable	<u>\$ 2,716</u>
<b>Fund balances</b>	
Unassigned	<u>691,510</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 694,226</u></b>

**City of Au Gres**  
**Other Supplemental Information**  
**Component Unit - Tax Increment Financing Authority**  
**Reconciliation of Fund Balances to Net Position of Component Unit**  
**June 30, 2019**

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<b>Total component unit fund balances</b>	\$ 691,510
Total net position for component unit in the statement of net position is different because	
Capital assets used in component unit are not financial resources and therefore are not reported in the funds.	<u>182,594</u>
<b>Net position of component unit</b>	<u><u>\$ 874,104</u></u>

**City of Au Gres**  
**Other Supplemental Information**  
**Component Unit - Tax Increment Financing Authority**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 255,050	\$ 255,050	\$ 260,096	\$ 5,046
Interest income	500	500	6,736	6,236
Other revenue	<u>35,000</u>	<u>35,000</u>	<u>45,725</u>	<u>10,725</u>
Total revenues	<u>290,550</u>	<u>290,550</u>	<u>312,557</u>	<u>22,007</u>
<b>Expenditures</b>				
Current				
Community and economic development	148,550	136,225	126,296	(9,929)
Capital outlay	<u>292,000</u>	<u>292,000</u>	<u>97,505</u>	<u>(194,495)</u>
Total expenditures	<u>440,550</u>	<u>428,225</u>	<u>223,801</u>	<u>(204,424)</u>
Excess (deficiency) of revenues over expenditures	(150,000)	(137,675)	88,756	226,431
Fund balance - beginning of year	<u>602,754</u>	<u>602,754</u>	<u>602,754</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 452,754</u>	<u>\$ 465,079</u>	<u>\$ 691,510</u>	<u>\$ 226,431</u>

**City of Au Gres**  
**Other Supplemental Information**  
**Component Unit - Tax Increment Financing Authority**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Component Unit to the Statement of Activities**  
**For the Year Ended June 30, 2019**

---

<b>Net change in fund balances - component unit</b>	\$ 88,756
Total change in net position reported for component unit in the statement of activities is different because	
Component unit report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(11,629)
Capital outlay	<u>64,346</u>
<b>Change in net position of component unit</b>	<u>\$ 141,473</u>

**City of Au Gres**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2019**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal	Interest	Total
<b>Governmental Activities</b>						
City Improvement Bonds						
Date of issue 10/21/15						
amount of issue \$ 995,000						
	2.100%	5/1/2020	\$ 60,000	\$ 60,000	\$ 23,516	\$ 83,516
	2.300%	5/1/2021	60,000	60,000	22,256	82,256
	2.500%	5/1/2022	65,000	65,000	20,876	85,876
	2.700%	5/1/2023	65,000	65,000	19,250	84,250
	2.900%	5/1/2024	65,000	65,000	17,496	82,496
	3.100%	5/1/2025	70,000	70,000	15,610	85,610
	3.300%	5/1/2026	70,000	70,000	13,440	83,440
	3.450%	5/1/2027	75,000	75,000	11,130	86,130
	3.550%	5/1/2028	75,000	75,000	8,542	83,542
	3.650%	5/1/2029	80,000	80,000	5,880	85,880
	3.700%	5/1/2030	80,000	80,000	2,960	82,960
Total governmental activities				<u>765,000</u>	<u>160,956</u>	<u>925,956</u>

**City of Au Gres**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2019**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal	Interest	Total
<b>Business-type Activities</b>						
Water Revenue Bond Date of issue 5/24/95; amount of issue \$ 913,000	5.125%	4/1/2020	\$ 24,000	\$ 24,000	\$ 29,776	\$ 53,776
	5.125%	4/1/2021	26,000	26,000	28,546	54,546
	5.125%	4/1/2022	27,000	27,000	27,214	54,214
	5.125%	4/1/2023	28,000	28,000	25,830	53,830
	5.125%	4/1/2024	30,000	30,000	24,396	54,396
	5.125%	4/1/2025	31,000	31,000	22,858	53,858
	5.125%	4/1/2026	33,000	33,000	21,268	54,268
	5.125%	4/1/2027	35,000	35,000	19,578	54,578
	5.125%	4/1/2028	36,000	36,000	17,784	53,784
	5.125%	4/1/2029	38,000	38,000	15,938	53,938
	5.125%	4/1/2030	40,000	40,000	13,992	53,992
	5.125%	4/1/2031	42,000	42,000	11,942	53,942
	5.125%	4/1/2032	44,000	44,000	9,788	53,788
	5.125%	4/1/2033	47,000	47,000	7,534	54,534
	5.125%	4/1/2034	49,000	49,000	5,126	54,126
	5.125%	4/1/2035	51,000	51,000	2,612	53,612
Total business-type activities				<u>581,000</u>	<u>284,182</u>	<u>865,182</u>
<b>Total indebtedness</b>				<u>\$ 1,346,000</u>	<u>\$ 445,138</u>	<u>\$ 1,791,138</u>





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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

### **Independent Auditors' Report**

Management and the City Council  
City of Au Gres  
Au Gres, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Au Gres as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Au Gres' basic financial statements, and have issued our report thereon dated August 20, 2019.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Au Gres' 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 City of Au Gres' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Au Gres' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a material weakness.

### **Compliance and Other Matters**

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

### **City of Au Gres' Response to Finding and Corrective Action Plan**

City of Au Gres' response to the finding identified in our audit are described in the accompanying schedule of findings and responses. City of Au Gres' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
August 20, 2019

**City of Au Gres**  
**Schedule of Findings and Responses**  
**June 30, 2019**

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**2019-001 – Material Weakness – Audit Adjustments Required**

**Specific requirement:** Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

**Condition:** Two material journal entries were proposed by the auditors to properly accrue for receivables in the Boat Access and Harbor Fund related to funds received for ongoing projects. These entries proposed by the auditors were considered material to the Boat Access and Harbor Fund.

**Cause:** The receivable and revenues were not booked for a grant received from a local community foundation as well as for a reimbursement grant that the City had incurred expenses for in fiscal year 2019 and not yet received.

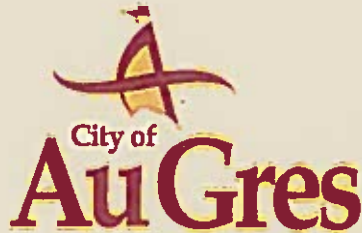
**Effect:** Had the journal entries not been recorded, the financial statements would have been materially misstated.

**Recommendation:** We recommend the City reviews all grant agreements in detail to ensure that revenues are being recorded in the proper period and in accordance with Generally Accepted Accounting Principles.

**Views of responsible officials:** Management indicated that the entries were not posted in error. See the corrective action plan for additional information.

**Corrective action plan:** See attached.

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August 20, 2019

Yeo & Yeo, P.C.

CPAs and Business Consultants

Saginaw, MI 48604

This corrective action plan is provided in connection with your audit of the financial statements for the City of Au Gres as of June 30, 2019. It was noted that the City received two material weaknesses in grants that were awarded in the current fiscal year but were not properly recorded. The City did receive word that these grants were accepted in the current fiscal year even though no money was received.

The City has manually entered the proper journal entries as a year-end entry to have the financial statements correct with fiscal year ending June 30, 2019. The City will start reviewing all grant agreements in detail to ensure that revenues are being recorded in the proper period even if not received.

If you need anything further, please feel free to contact our office.

Sincerely,

CITY OF AU GRES

A handwritten signature in black ink, appearing to read 'LaVonne Pritchard'.

LaVonne Pritchard

City Clerk

Sincerely,

CITY OF AU GRES

A handwritten signature in black ink, appearing to read 'Dale Wiltse'.

Dale Wiltse

City Manager

This institution is an equal opportunity provider.