

City of Owosso,
Michigan



Year Ended
June 30, 2017

Financial
Statements

CITY OF OWOSSO, MICHIGAN

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CITY OF OWOSSO, MICHIGAN

ELECTED OFFICERS

For the Year Ended June 30, 2017

ADMINISTRATION

CITY MANAGER

Donald Crawford

CITY COUNCIL

Mayor	Christopher Eveleth
Mayor Pro-Tem	Susan J. Osika
Council Member	Loreen Bailey
Council Member	Daniel Law
Council Member	Burton Fox
Council Member	Elaine Greenway
Council Member	Robert Teich Jr

INDEPENDENT AUDITORS' REPORT

December 8, 2017

To the City Council
City of Owosso
Owosso, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Downtown Development Authority component unit was not audited under Government Auditing Standards.

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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity 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 and the schedules for the pension plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Rehmann Johnson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF OWOSSO, MICHIGAN

Management's Discussion and Analysis

The City of Owosso, Michigan's (the "City") annual report has been prepared in compliance with Governmental Accounting Standard Board's (GASB) Statement No. 34 and consists of the management's discussion and analysis, basic financial statements, required supplementary information, and combining and individual fund financial statements. The information presented here should be read in conjunction with the financial statements and the notes to the financial statements that follow.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$58,010,355 (*net position*).
- The total net position for the City is \$58,010,355. Of this amount, \$5,228,630 is unrestricted and available for any City activity. The net position increased \$2,225,214 from the prior fiscal year.
- Combined program and general revenues for the primary government activities amounted to \$17,949,559. Expenses of \$15,724,345 were less than combined program and general revenues by \$2,225,214.
- The combined fund balance at year end for the City's governmental funds was \$12,979,877. This was an increase of \$5,585,541 over the prior fiscal year.
- General fund revenues exceeded expenditures and other financing uses by \$1,566,212, causing the general fund's fund balance to increase accordingly.

Overview of the Financial Statements

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

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

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development and recreation and culture. The business-type activities of the City include water, sewer, wastewater and transportation.

CITY OF OWOSSO, MICHIGAN

Management's Discussion and Analysis

The remaining statements are fund financial statements that focus on individual segments of the City. They are narrower in scope and provide more detail than the government-wide statements.

- Governmental funds such as the general fund and major streets fund focus on the financing of these areas in the short-term and what remains for future spending.
- The water supply system, sewage disposal system and wastewater treatment system funds represent some of the proprietary fund statements and show how these activities operate like businesses.
- Fiduciary fund statements provide information about financial relationships, such as the retirement plan for City employees, where the City administers the funds for the benefit of others who have ownership to the assets.

Notes to the financial statements are also included to further explain some of the financial statements and provide more detailed data.

The required supplementary information includes such items as the City's progress in funding its pension obligations as well as the City contributions. In addition, the City has also provided other discretionary supplementary information about the City that should further enhance the understanding of its operations.

Government-wide Financial Analysis

As mentioned earlier, net position provides useful benchmarks in determining overall financial position. The City of Owosso's combined net position is \$58,010,355. This compares to last year's reported total of \$55,785,141 which was an increase of \$2,225,214.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 16,946,355	\$ 11,182,186	\$ 11,022,755	\$ 9,540,508	\$ 27,969,110	\$ 20,722,694
Capital assets, net	35,286,822	34,355,781	13,936,146	12,283,577	49,222,968	46,639,358
	<u>52,233,177</u>	<u>45,537,967</u>	<u>24,958,901</u>	<u>21,824,085</u>	<u>77,192,078</u>	<u>67,362,052</u>
Deferred outflows of resources						
	<u>2,753,051</u>	<u>2,592,094</u>	<u>1,116,981</u>	<u>1,009,433</u>	<u>3,870,032</u>	<u>3,601,527</u>
Liabilities						
Other liabilities	6,680,201	5,627,933	2,950,552	1,684,765	9,630,753	7,312,698
Long-term debt	7,808,329	3,295,844	4,921,307	3,578,131	12,729,636	6,873,975
	<u>14,488,530</u>	<u>8,923,777</u>	<u>7,871,859</u>	<u>5,262,896</u>	<u>22,360,389</u>	<u>14,186,673</u>
Deferred inflows of resources						
	<u>469,814</u>	<u>697,684</u>	<u>221,552</u>	<u>294,081</u>	<u>691,366</u>	<u>991,765</u>
Net position						
Net investment in capital assets	32,639,819	32,035,984	9,105,280	8,836,791	41,745,099	40,872,775
Restricted	7,076,140	2,266,987	3,960,486	3,025,454	11,036,626	5,292,441
Unrestricted	311,925	4,205,629	4,916,705	5,414,296	5,228,630	9,619,925
	<u>34,027,884</u>	<u>38,508,600</u>	<u>17,982,471</u>	<u>17,276,541</u>	<u>58,010,355</u>	<u>55,785,141</u>
Total net position	<u>\$ 40,027,884</u>	<u>\$ 38,508,600</u>	<u>\$ 17,982,471</u>	<u>\$ 17,276,541</u>	<u>\$ 58,010,355</u>	<u>\$ 55,785,141</u>

CITY OF OWOSSO, MICHIGAN

Management's Discussion and Analysis

Further review of the net position indicates that they are divided into three parts. The largest part, 72%, is the net investment in capital assets (land, buildings, machinery and equipment) which cannot be readily liquidated or available for future spending. The second part is restricted net position, which are subject to external restrictions on how they may be used. Finally, the last part is unrestricted net position which can be used for ongoing obligations or new activities.

Governmental Activities

Governmental activities are described in detail below. The City of Owosso's current fiscal year experienced an increase in net position of \$1,519,284. This increase in net position is mainly the result of expanded road projects which in the governmental activities reduce capital expenditures and increase assets.

The City received gas and weight tax contributions of \$1,246,214 and operating grant funds for roads of \$706,037, which account for the majority of the \$2,053,211 in operating grants and contributions for the governmental activities. Capital grants and contributions for the governmental activities and business-type activities, in the amount of \$2,053,626, primarily consists of a transfer (contribution) of the Hathaway road for \$929,360 and \$589,687, respectively.

During the current year, governmental activities revenues increased by \$2,055,256 and expenses increased by \$167,362. Revenues were greater due to increases in road grants and the contribution of Hathaway drive from the brownfield fund to local streets fund. The general fund will be paid back over the life of the brownfield through tax capture at an interest rate of four percent. The decrease in expense was nominal and represents a netting of many increases and decreases.

During the current year, business-type activity revenues increased by \$898,251 and expenses increased \$801,612. This was mainly the result of SAW grant revenue and expense for an asset management plan for the sewer and wastewater treatment plants. The water fund saw an increase in revenue due to the Hathaway road water line asset that was contributed from the brownfield authority.

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 1,774,429	\$ 1,712,624	\$ 6,039,878	\$ 5,867,693	\$ 7,814,307	\$ 7,580,317
Operating grants and contributions	2,053,211	1,445,516	726,905	565,751	2,780,116	2,011,267
Capital grants and contributions	1,463,939	7,500	589,687	-	2,053,626	7,500
General revenues:						
Property taxes	3,463,620	3,453,738	72,401	71,221	3,536,021	3,524,959
Grants and contributions not restricted to specific programs	1,622,955	1,556,296	-	-	1,622,955	1,556,296
Other	140,052	287,276	2,482	28,437	142,534	315,713
Total revenues	10,518,206	8,462,950	7,431,353	6,533,102	17,949,559	14,996,052

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CITY OF OWOSSO, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position (concluded)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Expenses						
General government	\$ 920,802	\$ 1,365,288	\$ -	\$ -	\$ 920,802	\$ 1,365,288
Public safety	4,102,425	3,867,421	-	-	4,102,425	3,867,421
Public works	3,013,640	2,786,798	-	-	3,013,640	2,786,798
Community and economic development	497,662	360,525	-	-	497,662	360,525
Recreation and culture	354,614	338,375	-	-	354,614	338,375
Water	-	-	2,502,455	2,332,761	2,502,455	2,332,761
Sewer	-	-	2,191,282	1,818,710	2,191,282	1,818,710
Wastewater	-	-	1,967,496	1,701,076	1,967,496	1,701,076
Transportation	-	-	64,190	71,264	64,190	71,264
Interest on debt	109,779	113,153	-	-	109,779	113,153
Total expenses	8,998,922	8,831,560	6,725,423	5,923,811	15,724,345	14,755,371
Change in net position	1,519,284	(368,610)	705,930	609,291	2,225,214	240,681
Net position						
Beginning of year	38,508,600	38,877,210	17,276,541	16,667,250	55,785,141	55,544,460
End of year	<u>\$ 40,027,884</u>	<u>\$ 38,508,600</u>	<u>\$ 17,982,471</u>	<u>\$ 17,276,541</u>	<u>\$ 58,010,355</u>	<u>\$ 55,785,141</u>

Financial Analysis of the City's Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,979,877 or 127% of annual operating expenditures. More detail on available, spendable balances can be found in the notes to these financial statements.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance was \$6,015,308 an increase of \$1,566,212. The continued positive results are due to several factors. Transfers in from the Capital Projects Fund increased revenue by \$850,000, which in turn was advanced to the Brownfield fund, but per auditing standards there is no offsetting expense associated with the advance going out. Secondly, State Revenue Sharing included seven payments in 2017 instead of six payment. In the past the June payment had been deferred as it is received late in August. However, going forward the June payment will be shown in the year in which it is budgeted. Therefore 2017 showed increased revenue sharing. Finally, both the 2016 and 2017 exempted personal property tax reimbursement payments of \$173,000 were received from the State of Michigan in the current year.

The major streets and local streets fund balance increased from \$162,564 to \$569,372 and \$6,671 to \$102,587, respectively. The increase is attributable to funds transferred from the capital improvement fund and collection of special assessment revenue. The fund balance will be drawn down in the subsequent year for street maintenance and improvement efforts.

The streets capital projects fund balance increased from \$440,199 to \$4,824,244 which is mainly due to the issuance of long-term debt in the amount of \$4,900,000 during the current fiscal year.

CITY OF OWOSSO, MICHIGAN

Management's Discussion and Analysis

The nonmajor funds include special revenue, debt service and capital project funds and have total fund balances of \$1,468,366. This was a decrease in fund balance from the previous year of \$867,440 for the transfer to the general fund to finance the Hathaway road brownfield project. The general fund will receive tax capture to pay back the principal as well as interest of four percent over the life of the brownfield.

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

The proprietary funds of the City are comprised of the water supply system, sewage disposal system, wastewater treatment system and transportation funds. The water supply system fund's net position increased by \$963,485 to \$9,743,677. The sewage disposal system fund's net position decreased \$174 to \$3,961,943. The wastewater treatment system fund's net position decreased \$265,592 to \$4,268,614. The water supply system fund's net position increased due to water lines for Hathaway road transferred from the brownfield authority and capital purchases that were greater than depreciation. The fund continues to benefit from a bond refinancing that lowered interest expense. The sewage disposal system fund's decrease was insignificant. The City operates under a consent order under its NPDES permit. The wastewater treatment system fund's net position decreased because restricted cash used for capital purchases affected increase in rates.

General Fund Budgetary Highlights

The general fund accounts for the public safety, public works, community and economic development, parks and recreation and administrative functions of the City government. The budget is monitored closely, and during the annual budget process, the City completes an extensive review of the current year budget, culminating in amendments to appropriately revise revenue and expenditure estimates. Differences between the original and final amended budgets for expenditures were primarily due to equipment and building improvement purchases that were not made by year end.

Capital Asset and Debt Administration

At the end of the current fiscal year, the City's investment in capital assets for the governmental and business-type activities amounted to \$41,745,099 (net of depreciation and related debt). The investment in capital assets covers a broad variety of land, buildings, machinery, equipment, roads, highways, and bridges. The net investment (net of related debt) in capital assets increased \$872,324 due to more road projects in the current year. Please see the capital assets footnote for further detail.

Long-term Debt

At the end of the current fiscal year, the City had \$7,808,329 in bonds and other obligations outstanding and compensated absences for governmental activities and \$4,921,307 in bonds outstanding and compensated absences for business-type activities. Governmental activities long-term debt and obligations increased \$4,512,485 while business-type activities long-term debt increased \$1,343,176. The main reasons for these changes were a \$4.9 million voter approved bond issuance to finance city roads and a \$1.9 million installment purchase loan to finance the automatic meter reading program in the water fund.

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

CITY OF OWOSSO, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

Tax revenues have stabilized increasing less than 1.3%. Constitutional and statutory revenue sharing from sales tax are expected to be in line with inflation. Property taxes and revenue sharing comprise 66% of general fund revenues. Fiscal 2018 general fund budget is in balance and includes excess of revenues over expenditures adding to the fund balance. This additional fund balance will be carryforward and used toward the cost of a new fire pumper in 2019.

Requests for Information

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors a general overview of the City's finances and provide further accountability of the financial transactions that take place. If you have questions about this report or need additional financial information, please contact the City of Owosso Finance Director Office, 301 W. Main Street, Owosso, Michigan, 48867.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OWOSSO, MICHIGAN

Statement of Net Position

June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 13,473,523	\$ 4,997,240	\$ 18,470,763	\$ 947,628
Receivables, net	1,673,626	1,291,604	2,965,230	123,420
Advance to Component Unit	1,224,498	612,636	1,837,134	-
Inventories	103,441	160,789	264,230	65,700
Other assets	471,267	-	471,267	-
Restricted cash and investments	-	3,960,486	3,960,486	-
Capital assets not being depreciated	5,891,459	1,776,832	7,668,291	-
Capital assets being depreciated, net	29,395,363	12,159,314	41,554,677	-
Total assets	52,233,177	24,958,901	77,192,078	1,136,748
Deferred outflows of resources				
Deferred pension amounts	2,753,051	1,116,981	3,870,032	-
Liabilities				
Accounts payable	899,763	1,029,393	1,929,156	558,208
Accrued and other liabilities	236,962	223,297	460,259	-
Long-term liabilities:				
Due within one year	484,085	517,598	1,001,683	115,928
Due in more than one year	7,324,244	4,403,709	11,727,953	1,887,660
Net pension liability	5,543,476	1,697,862	7,241,338	-
Total liabilities	14,488,530	7,871,859	22,360,389	2,561,796
Deferred inflows of resources				
Deferred pension amounts	469,814	221,552	691,366	-
Net position				
Net investment in capital assets	32,639,819	9,105,280	41,745,099	-
Restricted for:				
Debt service	174,464	2,250,000	2,424,464	-
Revolving loan	1,266,420	-	1,266,420	-
Housing and redevelopment	4,515	-	4,515	-
Streets	5,496,203	-	5,496,203	-
Historical	73,755	-	73,755	-
Improvement and replacement	-	1,710,486	1,710,486	-
Skate park donations	21,409	-	21,409	-
Building code enforcement	39,374	-	39,374	-
Unrestricted (deficit)	311,925	4,916,705	5,228,630	(1,425,048)
Total net position (deficit)	\$ 40,027,884	\$ 17,982,471	\$ 58,010,355	\$ (1,425,048)

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

CITY OF OWOSSO, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 920,802	\$ 240,656	\$ 76,818	\$ -	\$ (603,328)
Public safety	4,102,425	1,153,123	-	-	(2,949,302)
Public works	3,013,640	39,789	1,952,251	1,300,522	278,922
Community and economic development	497,662	325,579	-	163,417	(8,666)
Recreation and culture	354,614	15,282	24,142	-	(315,190)
Interest on debt	109,779	-	-	-	(109,779)
Total governmental activities	8,998,922	1,774,429	2,053,211	1,463,939	(3,707,343)
Business-type activities:					
Water	2,502,455	2,799,681	120,450	540,206	957,882
Sewer	2,191,282	1,598,198	594,363	-	1,279
Wastewater	1,967,496	1,641,999	12,092	49,481	(263,924)
Transportation	64,190	-	-	-	(64,190)
Total business-type activities	6,725,423	6,039,878	726,905	589,687	631,047
Total primary government	\$ 15,724,345	\$ 7,814,307	\$ 2,780,116	\$ 2,053,626	\$ (3,076,296)
Component units					
Downtown Development Authority	\$ 219,827	\$ -	\$ -	\$ -	\$ (219,827)
Brownfield Redevelopment Authority	2,208,381	-	8,904	711,678	(1,487,799)
Total component units	\$ 2,428,208	\$ -	\$ 8,904	\$ 711,678	\$ (1,707,626)

continued...

CITY OF OWOSSO, MICHIGAN

Statement of Activities
For the Year Ended June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenues	\$ (3,707,343)	\$ 631,047	\$ (3,076,296)	\$ (1,707,626)
General revenues:				
Property taxes	3,463,620	72,401	3,536,021	276,971
Grants and contributions not restricted to specific programs	1,622,955	-	1,622,955	-
Unrestricted investment earnings	26,000	2,482	28,482	-
Miscellaneous revenue	114,052	-	114,052	28,159
Total general revenues	5,226,627	74,883	5,301,510	305,130
Change in net position	1,519,284	705,930	2,225,214	(1,402,496)
Net position (deficit), beginning of year	38,508,600	17,276,541	55,785,141	(22,552)
Net position (deficit), end of year	\$ 40,027,884	\$ 17,982,471	\$ 58,010,355	\$ (1,425,048)

concluded.

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

FUND FINANCIAL STATEMENTS

CITY OF OWOSSO, MICHIGAN

Balance Sheet Governmental Funds June 30, 2017

	General Fund	Major Streets Fund	Local Streets Fund	Streets Capital Project Fund
Assets				
Cash and investments	\$ 4,795,645	\$ 472,247	\$ 10,871	\$ 4,850,732
Receivables, net:				
Accounts	532,082	-	-	-
Special assessments	-	-	-	-
Due from other governments	367,291	122,243	101,430	-
Advance to component units	1,224,498	-	-	-
Due from other funds	187,065	26,488	-	-
Inventories	103,441	-	-	-
Prepays	19,162	-	-	-
Land held for sale	-	-	-	-
Total assets	\$ 7,229,184	\$ 620,978	\$ 112,301	\$ 4,850,732
Liabilities				
Accounts payable	\$ 717,732	\$ 49,578	\$ 7,189	\$ -
Accrued liabilities	60,614	-	-	-
Accrued wages	140,338	2,028	2,525	-
Due to other funds	-	-	-	26,488
Total liabilities	918,684	51,606	9,714	26,488
Deferred inflows of resources				
Unavailable revenue - special assessments	-	-	-	-
Unavailable revenue - other	295,192	-	-	-
Total deferred inflows of resources	295,192	-	-	-
Fund balances				
Nonspendable	1,347,101	-	-	-
Restricted	60,783	569,372	102,587	4,824,244
Assigned	2,872,908	-	-	-
Unassigned	1,734,516	-	-	-
Total fund balances	6,015,308	569,372	102,587	4,824,244
Total liabilities, deferred inflows of resources and fund balances	\$ 7,229,184	\$ 620,978	\$ 112,301	\$ 4,850,732

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



Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,121,446	\$ 11,250,941
358,052	890,134
191,612	191,612
-	590,964
-	1,224,498
-	213,553
-	103,441
-	19,162
<u>238,000</u>	<u>238,000</u>
<u>\$ 1,909,110</u>	<u>\$ 14,722,305</u>
\$ 49,818	\$ 824,317
10,341	70,955
1,908	146,799
<u>187,065</u>	<u>213,553</u>
<u>249,132</u>	<u>1,255,624</u>
191,612	191,612
-	295,192
<u>191,612</u>	<u>486,804</u>
-	1,347,101
1,345,107	6,902,093
123,259	2,996,167
-	1,734,516
<u>1,468,366</u>	<u>12,979,877</u>
<u>\$ 1,909,110</u>	<u>\$ 14,722,305</u>

CITY OF OWOSSO, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Fund balances - total governmental funds	\$ 12,979,877
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Assets held on deposit with the MMRMA for self insurance are not current financial resources, and therefore are not reported in the fund statement.	214,105
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets not being depreciated	5,891,459
Capital assets being depreciated, net	28,176,351
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows in the governmental funds, and thus are not included in fund balance.	
Unavailable revenue - special assessments	191,612
Unavailable revenue - other	295,192
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(5,543,476)
Pension related deferred outflows of resources	2,753,051
Pension related deferred inflows of resources	(469,814)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Net position of governmental activities accounted for in internal service funds	3,296,208
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Accrued interest on long-term debt	(17,565)
Long-term bonds and notes payable	(7,340,000)
Self insurance liability	(71,355)
Compensated absences	(327,761)
Net position of governmental activities	<u>\$ 40,027,884</u>

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

CITY OF OWOSSO, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2017

	General Fund	Major Streets Fund	Local Streets Fund
Revenues			
Property taxes	\$ 3,330,926	\$ -	\$ -
Licenses and permits	325,579	-	-
Intergovernmental	2,016,283	1,586,213	1,540,713
Charges for services	1,306,149	-	-
Sales	-	-	-
Special assessments	-	100,956	61,820
Interest	25,376	-	-
Miscellaneous	221,762	-	-
Total revenues	7,226,075	1,687,169	1,602,533
Expenditures			
Current:			
General government	983,558	-	-
Public safety	3,956,309	-	-
Public works	982,416	1,391,185	1,848,002
Community and economic development	318,023	-	-
Recreation and culture	205,005	-	-
Debt service:			
Principal	25,513	-	-
Interest and fiscal charges	744	-	-
Total expenditures	6,471,568	1,391,185	1,848,002
Revenues over (under) expenditures	754,507	295,984	(245,469)
Other financing sources (uses)			
Transfers in	858,628	339,330	341,385
Transfers out	(46,923)	(228,506)	-
Issuance of long-term debt	-	-	-
Total other financing sources (uses)	811,705	110,824	341,385
Net change in fund balances	1,566,212	406,808	95,916
Fund balances, beginning of year	4,449,096	162,564	6,671
Fund balances, end of year	\$ 6,015,308	\$ 569,372	\$ 102,587

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

Streets Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 132,694	\$ 3,463,620
-	-	325,579
-	244,771	5,387,980
-	12,650	1,318,799
-	2,632	2,632
-	-	162,776
459	165	26,000
-	24,142	245,904
<u>459</u>	<u>417,054</u>	<u>10,933,290</u>
-	276,389	1,259,947
-	-	3,956,309
850	-	4,222,453
-	-	318,023
-	-	205,005
-	100,000	125,513
49,355	110,400	160,499
<u>50,205</u>	<u>486,789</u>	<u>10,247,749</u>
<u>(49,746)</u>	<u>(69,735)</u>	<u>685,541</u>
-	49,405	1,588,748
(466,209)	(847,110)	(1,588,748)
4,900,000	-	4,900,000
<u>4,433,791</u>	<u>(797,705)</u>	<u>4,900,000</u>
4,384,045	(867,440)	5,585,541
440,199	2,335,806	7,394,336
<u>\$ 4,824,244</u>	<u>\$ 1,468,366</u>	<u>\$ 12,979,877</u>

CITY OF OWOSSO, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$ 5,585,541
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Change in net position held with an agent for self-insurance.	107,888
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	1,501,478
Donated capital assets	929,360
Net book value of disposed capital assets	(96,259)
Depreciation expense	(1,372,047)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Current year net change in long-term receivables	(330,866)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Issuance of long-term debt	(4,900,000)
Principal payments on long-term liabilities	125,513
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in net pension liability and related deferred amounts	(487,883)
Change in accrual for compensated absences	30,064
Change in landfill remediation liability	169,080
Change in accrued interest payable on long-term debt	490
An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Change in net position of governmental activities internal service funds	<u>256,925</u>
Change in net position of governmental activities	<u>\$ 1,519,284</u>

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

CITY OF OWOSSO, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 3,318,875	\$ 3,316,744	\$ 3,330,926	\$ 14,182
Licenses and permits	133,100	264,702	325,579	60,877
Intergovernmental	1,657,200	1,747,798	2,016,283	268,485
Charges for services	1,244,050	1,192,217	1,306,149	113,932
Interest revenue	35,000	10,546	25,376	14,830
Miscellaneous	22,000	176,027	221,762	45,735
Total revenues	6,410,225	6,708,034	7,226,075	518,041
Expenditures				
Current:				
General government	1,193,150	1,119,687	983,558	(136,129)
Public safety	4,244,625	4,111,625	3,956,309	(155,316)
Public works	980,550	1,006,550	982,416	(24,134)
Community and economic development	324,700	329,775	318,023	(11,752)
Recreation and culture	196,850	197,628	205,005	7,377
Debt service:				
Principal	25,513	25,513	25,513	-
Interest	987	987	744	(243)
Total expenditures	6,966,375	6,791,765	6,471,568	(320,197)
Revenue over (under) expenditures	(556,150)	(83,731)	754,507	838,238
Other financing sources (uses)				
Transfer in	-	-	858,628	858,628
Transfer out	(43,850)	(409,720)	(46,923)	(362,797)
Total other financing sources (uses)	(43,850)	(409,720)	811,705	1,221,425
Net change in fund balance	(600,000)	(493,451)	1,566,212	2,059,663
Fund balance, beginning of year	4,449,096	4,449,096	4,449,096	-
Fund balance, end of year	\$ 3,849,096	\$ 3,955,645	\$ 6,015,308	\$ 2,059,663

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

CITY OF OWOSSO, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Major Streets Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Intergovernmental	\$ 1,421,500	\$ 1,708,839	\$ 1,586,213	\$ (122,626)
Special assessments	74,325	74,325	100,956	26,631
Total revenues	1,495,825	1,783,164	1,687,169	(95,995)
Expenditures				
Public works	1,430,025	1,833,164	1,391,185	(441,979)
Revenue over (under) expenditures	65,800	(50,000)	295,984	345,984
Other financing sources (uses)				
Transfer in	-	325,991	339,330	13,339
Transfer out	(65,800)	(225,000)	(228,506)	3,506
Total other financing sources (uses)	(65,800)	100,991	110,824	9,833
Net change in fund balance	-	50,991	406,808	355,817
Fund balance, beginning of year	162,564	162,564	162,564	-
Fund balance, end of year	\$ 162,564	\$ 213,555	\$ 569,372	\$ 355,817

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

CITY OF OWOSSO, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual - Local Streets Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenue				
Intergovernmental	\$ 361,800	\$ 600,208	\$ 1,540,713	\$ 940,505
Special assessments	46,050	46,000	61,820	15,820
Total revenue	407,850	646,208	1,602,533	956,325
Expenditures				
Public works	474,500	923,854	1,848,002	924,148
Revenue over (under) expenditures	(66,650)	(277,646)	(245,469)	32,177
Other financing sources				
Transfer in	65,800	337,879	341,385	3,506
Net change in fund balance	(850)	60,233	95,916	35,683
Fund balance, beginning of year	6,671	6,671	6,671	-
Fund balance, end of year	\$ 5,821	\$ 66,904	\$ 102,587	\$ 35,683

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

CITY OF OWOSSO, MICHIGAN

Statement of Net Position

Proprietary Funds

June 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Supply System	Sewage Disposal System	Wastewater Treatment System	Transportation Nonmajor Enterprise Fund	Total	Internal Service Fund
Assets						
Current assets:						
Cash and investments	\$ 1,843,281	\$ 2,375,848	\$ 769,874	\$ 8,237	\$ 4,997,240	\$ 2,222,582
Accounts receivable, net	810,934	480,670	-	-	1,291,604	916
Advance to component units	612,636	-	-	-	612,636	-
Inventories	160,789	-	-	-	160,789	-
Total current assets	<u>3,427,640</u>	<u>2,856,518</u>	<u>769,874</u>	<u>8,237</u>	<u>7,062,269</u>	<u>2,223,498</u>
Noncurrent assets:						
Restricted cash and investments	2,250,000	-	1,710,486	-	3,960,486	-
Capital assets not being depreciated	1,592,057	184,775	-	-	1,776,832	-
Capital assets being depreciated, net	8,334,665	1,595,834	2,228,815	-	12,159,314	1,219,012
Total noncurrent assets	<u>12,176,722</u>	<u>1,780,609</u>	<u>3,939,301</u>	<u>-</u>	<u>17,896,632</u>	<u>1,219,012</u>
Total assets	<u>15,604,362</u>	<u>4,637,127</u>	<u>4,709,175</u>	<u>8,237</u>	<u>24,958,901</u>	<u>3,442,510</u>
Deferred outflows of resources						
Deferred pension amounts	512,973	118,349	485,659	-	1,116,981	-
Liabilities						
Current liabilities:						
Accounts payable	932,661	71,172	25,560	-	1,029,393	4,091
Accrued liabilities	197,404	7,869	18,024	-	223,297	1,643
Current portion of long-term debt	470,629	36,777	10,192	-	517,598	64,815
Total current liabilities	<u>1,600,694</u>	<u>115,818</u>	<u>53,776</u>	<u>-</u>	<u>1,770,288</u>	<u>70,549</u>
Noncurrent liabilities:						
Long-term debt, net of current portion	3,892,001	481,132	30,576	-	4,403,709	75,753
Net pension liability	772,662	179,758	745,442	-	1,697,862	-
Total noncurrent liabilities	<u>4,664,663</u>	<u>660,890</u>	<u>776,018</u>	<u>-</u>	<u>6,101,571</u>	<u>75,753</u>
Total liabilities	<u>6,265,357</u>	<u>776,708</u>	<u>829,794</u>	<u>-</u>	<u>7,871,859</u>	<u>146,302</u>
Deferred inflows of resources						
Deferred pension amounts	108,301	16,825	96,426	-	221,552	-
Net position						
Net investment in capital assets	5,606,657	1,269,808	2,228,815	-	9,105,280	1,087,765
Restricted for:						
Improvement and replacement	-	-	1,710,486	-	1,710,486	-
Debt service	2,250,000	-	-	-	2,250,000	-
Unrestricted	1,887,020	2,692,135	329,313	8,237	4,916,705	2,208,443
Total net position	<u>\$ 9,743,677</u>	<u>\$ 3,961,943</u>	<u>\$ 4,268,614</u>	<u>\$ 8,237</u>	<u>\$ 17,982,471</u>	<u>\$ 3,296,208</u>

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

CITY OF OWOSSO, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				Total	Governmental
	Water Supply System	Sewage Disposal System	Wastewater Treatment System	Transportation Nonmajor Enterprise Fund		Internal Service Fund
Operating revenues						
Charges for services	\$ 2,799,681	\$ 1,598,198	\$ 1,641,999	\$ -	\$ 6,039,878	\$ 708,109
Operating expenses						
Personnel services	955,933	152,087	800,004	-	1,908,024	125,325
Administrative and engineering services	234,100	100,800	204,350	-	539,250	31,000
Contractual and professional services	122,790	650,578	90,754	64,190	928,312	-
Supplies and chemicals	175,703	14,294	154,170	-	344,167	29,602
Utilities	138,676	2,679	235,520	-	376,875	-
Insurance	48,159	18,301	44,280	-	110,740	26,038
Maintenance	439,116	49,836	184,744	-	673,696	73,977
Plant charges	-	1,139,368	-	-	1,139,368	-
Depreciation	304,187	50,013	253,674	-	607,874	167,433
Total operating expenses	2,418,664	2,177,956	1,967,496	64,190	6,628,306	453,375
Operating income (loss)	381,017	(579,758)	(325,497)	(64,190)	(588,428)	254,734
Nonoperating revenues (expenses)						
Investment income (loss)	5,603	(1,453)	(1,668)	-	2,482	-
State grant	-	564,455	49,481	-	613,936	-
Reimbursement and miscellaneous	74,319	29,908	12,092	-	116,319	2,191
Permits	46,131	-	-	-	46,131	-
Property taxes	-	-	-	72,401	72,401	-
Interest expense	(83,791)	(13,326)	-	-	(97,117)	-
Total nonoperating revenues (expenses)	42,262	579,584	59,905	72,401	754,152	2,191
Income (loss) before capital contributions	423,279	(174)	(265,592)	8,211	165,724	256,925
Capital contributions	540,206	-	-	-	540,206	-
Change in net position	963,485	(174)	(265,592)	8,211	705,930	256,925
Net position, beginning of year	8,780,192	3,962,117	4,534,206	26	17,276,541	3,039,283
Net position, end of year	\$ 9,743,677	\$ 3,961,943	\$ 4,268,614	\$ 8,237	\$ 17,982,471	\$ 3,296,208

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

CITY OF OWOSSO, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities	
	Water Supply System	Sewage Disposal System	Wastewater Treatment System	Transportation Nonmajor Enterprise Fund	Total	Internal Service Fund
Cash flows from operating activities						
Cash received from customers and users	\$ 3,187,750	\$ 1,964,740	\$ 1,803,016	\$ 26	\$ 6,955,532	\$ -
Cash receipts for internal services provided	-	-	-	-	-	2,727,619
Cash payments to suppliers for goods and services	(335,040)	(1,942,239)	(940,236)	(64,190)	(3,281,705)	(183,145)
Cash payments to employees for services	(874,604)	(138,369)	(716,211)	-	(1,729,184)	(124,905)
Net cash provided by (used in) operating activities	1,978,106	(115,868)	146,569	(64,164)	1,944,643	2,419,569
Cash flows from noncapital financing activities						
Other non-operating receipts	120,450	29,908	12,092	72,401	234,851	2,191
Cash flows from capital and related financing activities						
Purchase of capital assets	(1,154,514)	(15,442)	(550,281)	-	(1,720,237)	(142,170)
Proceeds from the sale of capital assets	-	-	-	-	-	6,228
Proceeds from issuance of long-term debt	1,900,000	-	-	-	1,900,000	-
State grant receipts	-	564,455	49,481	-	613,936	-
Principal paid on debt	(480,920)	(35,000)	-	-	(515,920)	(63,236)
Interest paid on debt	(85,301)	(13,544)	-	-	(98,845)	-
Net cash provided by (used in) capital and related financing activities	179,265	500,469	(500,800)	-	178,934	(199,178)
Cash flows from investing activities						
Advance to component unit	(612,636)	-	-	-	(612,636)	-
Interest received on investments	5,603	4,797	4,582	-	14,982	-
Net cash provided by (used in) investing activities	(607,033)	4,797	4,582	-	(597,654)	-
Net change in cash and cash equivalents	1,670,788	419,306	(337,557)	8,237	1,760,774	2,222,582
Cash and cash equivalents, beginning of year	2,422,493	1,956,542	2,817,917	-	7,196,952	-
Cash and cash equivalents, end of year	\$ 4,093,281	\$ 2,375,848	\$ 2,480,360	\$ 8,237	\$ 8,957,726	\$ 2,222,582
Classified on the statement of net position as						
Cash and investments	\$ 1,843,281	\$ 2,375,848	\$ 769,874	\$ 8,237	\$ 4,997,240	\$ 2,222,582
Restricted cash and investments	2,250,000	-	1,710,486	-	3,960,486	-
Total	\$ 4,093,281	\$ 2,375,848	\$ 2,480,360	\$ 8,237	\$ 8,957,726	\$ 2,222,582

continued...

CITY OF OWOSSO, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Supply System	Sewage Disposal System	Wastewater Treatment System	Transportation Nonmajor Enterprise Fund	Total	Internal Service Fund
Cash flows from operating activities						
Operating income (loss)	\$ 381,017	\$ (579,758)	\$ (325,497)	\$ (64,190)	\$ (588,428)	\$ 254,734
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	304,187	50,013	253,674	-	607,874	167,433
Change in operating assets and liabilities that provided (used) cash:						
Accounts receivable	(16,358)	6,064	-	26	(10,268)	(916)
Due from other funds	404,427	360,478	161,017	-	925,922	2,020,426
Inventories	(12,943)	-	-	-	(12,943)	-
Accounts payable	852,998	37,894	(23,198)	-	867,694	(22,528)
Accrued liabilities	17,536	802	3,098	-	21,436	43
Due to other funds	(16,551)	(4,277)	(3,220)	-	(24,048)	-
Accrued compensated absences	(21,014)	(8,681)	(11,209)	-	(40,904)	377
Pension related amounts	84,807	21,597	91,904	-	198,308	-
Net cash provided by (used in) operating activities	<u>\$ 1,978,106</u>	<u>\$ (115,868)</u>	<u>\$ 146,569</u>	<u>\$ (64,164)</u>	<u>\$ 1,944,643</u>	<u>\$ 2,419,569</u>
Noncash capital and other financing activities:						
Capital contributions	<u>\$ 540,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,206</u>	<u>\$ -</u>

concluded.

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

CITY OF OWOSSO, MICHIGAN

Statement of Fiduciary Net Position
Fiduciary Funds

	December 31, 2016	June 30, 2017
	Pension Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 68,973	\$ 23,097
Investments, at fair value:		
Money market accounts	601,726	-
Equities	22,793,449	-
Bonds	8,237,750	-
Accounts receivable	1,200	-
Interest receivable	31,509	-
Total assets	<u>31,734,607</u>	<u>\$ 23,097</u>
Liabilities		
Accounts payable	19,249	-
Due to other governments	-	23,097
Total liabilities	<u>19,249</u>	<u>\$ 23,097</u>
Net position		
Restricted for employees' pension benefits	<u>\$ 31,715,358</u>	

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

CITY OF OWOSSO, MICHIGAN

Statement of Changes in Plan Net Position

Pension Trust Fund

For the Year Ended December 31, 2016

Additions

Investment income:	
Interest and dividends	\$ 570,721
Net appreciation in fair value of investments	1,211,971
Total investment earnings	<u>1,782,692</u>
Investment expenses	<u>(98,370)</u>
Net investment income	<u>1,684,322</u>
Contributions:	
Employer	629,143
Plan members	234,195
Total contributions	<u>863,338</u>
Other - City reimbursed expenses, audit and education	<u>92,956</u>
Total additions	<u>2,640,616</u>
Deductions	
Benefit payments	2,604,576
Refunds of contributions	106,460
Administrative expenses	155,668
Other - Audit and education	<u>6,690</u>
Total deductions	<u>2,873,394</u>
Change in net position	(232,778)
Net position, beginning of year	<u>31,948,136</u>
Net position, end of year	<u><u>\$ 31,715,358</u></u>

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

CITY OF OWOSSO, MICHIGAN

Combining Statement of Net Position

Discretely Presented Component Units
June 30, 2017

	Downtown Development Authority	Brownfield Redevelopment Authority	Totals
Assets			
Cash and investments	\$ 52,529	\$ 895,099	\$ 947,628
Accounts receivable	109,204	14,216	123,420
Inventories	-	65,700	65,700
Total assets	161,733	975,015	1,136,748
Liabilities			
Accounts payable	668	478,265	478,933
Due to other governments	-	79,275	79,275
Long-term liabilities:			
Due within one year	-	115,928	115,928
Due in more than one year	-	1,887,660	1,887,660
Total liabilities	668	2,561,128	2,561,796
Net position			
Unrestricted (deficit)	\$ 161,065	\$ (1,586,113)	\$ (1,425,048)

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

CITY OF OWOSSO, MICHIGAN

Combining Statement of Activities Discretely Presented Component Units For the Year Ended June 30, 2017

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Program expenses			
Downtown Development Authority	\$ 219,827	\$ -	\$ 219,827
Brownfield Redevelopment Authority	-	2,208,381	2,208,381
Total program expenses	219,827	2,208,381	2,428,208
Program revenues			
Operating grants and contributions	-	8,904	8,904
Net program revenue (expense)	(219,827)	(2,199,477)	(2,419,304)
General revenues			
State grant	-	711,678	711,678
Property taxes	181,550	95,421	276,971
Other	28,159	-	28,159
Total general revenues	209,709	807,099	1,016,808
Change in net position	(10,118)	(1,392,378)	(1,402,496)
Net position, beginning of year	171,183	(193,735)	(22,552)
Net position, end of year	\$ 161,065	\$ (1,586,113)	\$ (1,425,048)

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

NOTES TO FINANCIAL STATEMENTS

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Owosso, Michigan (the "City") is a municipal corporation governed by an elected mayor and seven-member council and administered by an appointed City Manager.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and as such, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units

The discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

The governing bodies of the Brownfield Redevelopment Authority ("Brownfield") and Downtown Development Authorities (DDA) are all appointed by the City Council. These component units provide economic development and financing services to specific geographic areas within the City. These entities are fiscally dependent on the City because the City Council is responsible for approving any debt issuances and the annual operating budgets of all component units. All discretely presented component units use governmental fund type accounting. However, full accrual accounting is used for the government-wide financial statement presentation.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. Separately issued financial statements can be obtained from the administrative offices of the DDA.

The Brownfield Redevelopment Authority was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. The Brownfield governing body, which consists of seven members, is selected by the City Council. In addition, the Brownfield budget is subject to approval by the City Council. Separate financial statements are not prepared.

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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

Property taxes, intergovernmental revenue, 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 revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The *major streets fund* is used to account for the proceeds of revenue or financing activities earmarked for major street construction and improvements which require separate accounting because of legal or regulatory provisions.

The *local streets fund* is used to account for the proceeds of revenue or financing activities earmarked for local street construction and improvements which require separate accounting because of legal or regulatory provisions.

The *streets capital project fund* is used to account for proceeds of revenue or financing activities earmarked for future major or local street improvements.

The City reports the following major proprietary funds:

The *water supply system and sewage disposal system funds* are used to account for the provision of water and sewer services to the residents of the City and some residents of the surrounding community. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

The *wastewater treatment fund* is used to record the transactions relative to construction, operation, and maintenance of a wastewater treatment plant. It provides treatment facilities for Owosso and Caledonia Townships, the City of Corunna, as well as for the City itself.

Additionally, the City reports the following fund types:

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

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital project funds are used to account for and report financial resources that are used for capital projects.

The *internal service fund* accounts for fleet maintenance services provided to other departments of the City on a cost reimbursement basis.

The *pension trust fund* accounts for the Employees' Retirement System (the "System"), a defined benefit pension plan. It is governed by a seven-member pension board that includes three individuals chosen by the City Council. The system is reported within the City's basic financial statements even though its resources cannot be used to fund the City's operations because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

The *agency fund* is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The water supply system and sewage disposal system also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to connect new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

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

Deposits and Investments

The City's cash and cash equivalents include amounts in demand deposit accounts, certificates of deposit and short term investments with original maturities of three months or less from the date of acquisition. Investments, exclusive of certificates of deposit, are stated at fair value. Certificates of deposit are carried at cost plus accrued interest, since the original maturity dates are less than one year or the certificates are non-participating (i.e., there is no available market for trade prior to maturity).

The pension trust fund is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Advances between funds are offset by nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

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

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

Restricted Assets

Assets which are restricted for specified uses by bond debt requirements, grant provisions or other external requirements are classified as restricted assets. Liabilities payable from such restricted assets are separately classified.

Deferred Outflows of Resources

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

Property Taxes

Property taxes are levied each July 1 and December 1 on the taxable valuation of property, as equalized by the State, as of the preceding December 31, the lien date. The levies are considered past due on September 1 and February 15, respectively, at which time applicable penalties and interest are assessed. The City bills and collects its own property taxes as well as taxes for the various local governmental units. Collections and remittances for other units are accounted for in the trust and agency fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Inventories and Prepaids

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, buildings and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items acquired or constructed since 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at their estimated acquisition cost as of the donation date.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

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

	Years
Buildings	11-50
Land improvements	5-50
Machinery and equipment	5-20
Vehicles	5-25
Office furnishings	5-20
Road and sidewalks	50

The amount presented as capital assets not being depreciated includes land acquired by the City as well as construction in process. The land is deemed to have an indefinite useful life, and therefore are not being amortized.

The City reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City's full accrual activities and funds report deferred inflows of resources for deferred pension amounts whereas the City's governmental funds report unavailable revenues, which arise only under a modified basis of accounting, from long-term amounts due from others for services rendered. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond 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 when incurred.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (the City's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports *assigned fund balance* for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City's management. *Unassigned fund balance* is the residual classification for the general fund.

The City Council has adopted a minimum fund balance policy in which the general fund will be equal to 15% to 20% of the previous year's amended total budgeted expenditures and transfers out, less all grant related expenditures. If the fund balance of the general fund falls below the minimum range, the City will replenish shortfall by reducing expenditures, increasing revenues or a combination of expenditure reductions and revenue enhancements as detailed in the policy. If the fund balance of the general fund exceeds 20%, the City shall consider using such surpluses for one-time non-recurring expenditures that will not require additional future expenses for maintenance, additional staffing or any other recurring expenditures, in accordance with the policy.

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

Pensions

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

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental fund types, except capital project funds which are adopted on a project level.

Individual amendments for the year were not material in relation to the original appropriations. Supplemental appropriations were made during the year. Unexpended appropriations lapse at year end.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Budget appropriations are authorized by the City Council on a departmental basis in accordance with sections of the City Charter. Legal budgetary control is exercised at the activity level for the general fund and the activity level inclusive of capital outlay for all other funds.

For the year ended June 30, 2017, the City incurred expenditures in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund:			
Recreation and culture			
Parks	\$ 197,628	\$ 205,005	\$ 7,377
Major streets fund:			
Transfers out	225,000	228,506	3,506
Local streets fund:			
Public works	923,854	1,848,002	924,148

3. DEFICIT FUND EQUITY

The Brownfield Redevelopment Authority had a deficit net position at year-end of \$1,586,113. The Brownfield Redevelopment Authority will capture property taxes in the future and use revenues from services to eliminate this deficit.

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances for the City (including both cash and investments as well as pension trust fund balances) as of June 30, 2017:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and investments	\$ 18,470,763	\$ 947,628	\$ 19,418,391
Restricted cash and investments	3,960,486	-	3,960,486
Statement of Fiduciary Net Position			
Pension Trust Fund:			
Cash and cash equivalents	68,973	-	68,973
Investments	31,632,925	-	31,632,925
Agency fund -			
Cash and cash equivalents	23,097	-	23,097
Total	<u>\$ 54,156,244</u>	<u>\$ 947,628</u>	<u>\$ 55,103,872</u>
Deposits and investments			
Checking and savings accounts			\$ 18,149,720
Certificates of deposit			137,463
Investments			36,814,864
Cash on hand			1,825
Total			<u>\$ 55,103,872</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks and credit unions that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances 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 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.

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to the government. The City does not require collateralization of deposits. At June 30, 2017, the bank balance of deposits owned by the City was \$16,252,630. Approximately \$500,000 of the City's bank balance was covered by federal depository insurance. The remaining balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. Following is a summary of the City's investments as of June 30, 2017 for the primary government. The pension trust fund is as of December 31, 2016:

Investments:	
Money market funds	\$ 3,254,344
Equities	24,117,863
Corporate bonds	3,067,028
Municipal obligations	1,357,836
Government securities	<u>5,017,793</u>
Total	<u>\$ 36,814,864</u>

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2017 (December 31, 2016 for the pension trust fund), none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

Interest Rate Risk. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. Short-term funds matched to a specific cash flow requirement shall be invested in securities maturing not more than two (2) years from the date of purchase. Long-term funds (capital, debt services, etc.) matched to a specific cash flow requirement may be invested in securities maturing not more than five (5) years from the date of purchase.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

The City's investment policy and the Employee Retirement System's investment policy do not have specific limits on maturities of debt securities as a means of managing its exposure to fair value losses arising from increasing interest rates.

	Primary Government	Pension Trust Fund	Total
Due < 1 year	\$ 350,168	\$ 1,432,538	\$ 1,782,706
Due in 1-5 years	854,740	2,743,136	3,597,876
Due in 6-10 years	-	2,174,089	2,174,089
Due in more than 10 years	-	1,887,986	1,887,986
No maturity	3,977,031	23,395,176	27,372,207
Total	\$ 5,181,939	\$ 31,632,925	\$ 36,814,864

Moody's Rating

Money market funds	Not rated
Equities	Not rated
Corporate bonds	AAA-C
Municipal obligations	AA2-A3
Government securities	AAA

The money market funds are comprised of short-term securities (maturity generally less than 90 days).

Credit Risk. State law limits investments to specific governmental securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the City's investments.

The Employee Retirement System's investment policy on credit risk for allowable debt securities follows the City. The credit rating for each investment type is identified in the above table for debt securities held at December 31, 2016.

Concentration of Credit Risk. The Employee Retirement System's investment policy limits maturity value that may be invested in U.S. Equities to 5% of the outstanding securities of one issuer.

Fair Value Measurements. The City categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the City's investment managers. These are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in funds. The investment managers will request the information from the fund managers, if necessary.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

The City had the following recurring fair value measurements as of year end:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,254,344	\$ -	\$ -	\$ 3,254,344
Equities	24,117,863	-	-	24,117,863
Corporate bonds	-	3,067,028	-	3,067,028
Municipal obligations	-	1,357,836	-	1,357,836
Government securities	-	5,017,793	-	5,017,793
	<u>\$ 27,372,207</u>	<u>\$ 9,442,657</u>	<u>\$ -</u>	<u>\$ 36,814,864</u>

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 894,550	\$ 1,294,604	\$ 123,420
Intergovernmental	590,964	-	-
Special assessments	191,612	-	-
Total receivables	1,677,126	1,294,604	123,420
Less: Allowance for uncollectibles	(3,500)	(3,000)	-
Receivables, net	<u>\$ 1,673,626</u>	<u>\$ 1,291,604</u>	<u>\$ 123,420</u>

Of the receivable balance, \$315,003 is not expected to be collected within one year.

During 2017, the general fund and the water fund advanced \$1,224,498 and \$612,636, respectively, to the Brownfield fund that will be repaid over 15 years at an interest rate of 4.00%. Of the balance, approximately \$1,731,234 is not expected to be collected within one year.

6. ACCOUNTS PAYABLE

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Component Units
Accounts	\$ 828,408	\$ 1,029,393	\$ 478,933
Due to other governments	-	-	79,275
Self-insurance liability	71,355	-	-
	<u>\$ 899,763</u>	<u>\$ 1,029,393</u>	<u>\$ 558,208</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of year-end was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 187,065	\$ -
Major streets fund	26,488	-
Streets capital project fund	-	26,488
Nonmajor governmental funds	-	187,065
	<u>\$ 213,553</u>	<u>\$ 213,553</u>

These balances resulted in 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.

For the year ended June 30, 2017, interfund transfers consisted of the following:

Transfers Out	Transfers In		
	General Fund	Major Streets Fund	Local Streets Fund
General fund	\$ -	\$ -	\$ -
Major streets fund	-	-	228,506
Local streets fund	-	-	-
Streets capital project fund	14,000	339,330	112,879
Nonmajor governmental funds	844,628	-	-
Total	<u>\$ 858,628</u>	<u>\$ 339,330</u>	<u>\$ 341,385</u>

Transfers Out	Transfers In	
	Nonmajor Governmental Funds	Total
General fund	\$ 46,923	\$ 46,923
Major streets fund	-	228,506
Local streets fund	-	-
Streets capital project fund	-	466,209
Nonmajor governmental funds	2,482	847,110
Total	<u>\$ 49,405</u>	<u>\$ 1,588,748</u>

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

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

8. CAPITAL ASSETS

Primary government

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 4,639,373	\$ -	\$ (79,460)	\$ -	\$ 4,559,913
Construction in progress	174,562	1,244,917	-	(87,933)	1,331,546
	<u>4,813,935</u>	<u>1,244,917</u>	<u>(79,460)</u>	<u>(87,933)</u>	<u>5,891,459</u>
Capital assets, being depreciated:					
Roads and sidewalks	47,490,264	875,050	(16,800)	87,933	48,436,447
Land improvements	3,681,690	-	-	-	3,681,690
Buildings	2,799,608	11,499	-	-	2,811,107
Vehicles	3,934,931	365,462	(165,313)	-	4,135,080
Office furnishings	1,308,417	22,279	-	-	1,330,696
Machinery and equipment	2,298,861	53,801	-	-	2,352,662
	<u>61,513,771</u>	<u>1,328,091</u>	<u>(182,113)</u>	<u>87,933</u>	<u>62,747,682</u>
Less accumulated depreciation for:					
Roads and sidewalks	(22,319,206)	(996,843)	-	-	(23,316,049)
Land improvements	(2,138,836)	(126,280)	-	-	(2,265,116)
Buildings	(2,252,385)	(61,683)	-	-	(2,314,068)
Vehicles	(2,536,581)	(173,633)	159,086	-	(2,551,128)
Office furnishings	(1,196,333)	(36,044)	-	-	(1,232,377)
Machinery and equipment	(1,528,584)	(144,997)	-	-	(1,673,581)
	<u>(31,971,925)</u>	<u>(1,539,480)</u>	<u>159,086</u>	<u>-</u>	<u>(33,352,319)</u>
Total capital assets being depreciated, net	<u>29,541,846</u>	<u>(211,389)</u>	<u>(23,027)</u>	<u>87,933</u>	<u>29,395,363</u>
Governmental activities capital assets, net	<u>\$ 34,355,781</u>	<u>\$ 1,033,528</u>	<u>\$ (102,487)</u>	<u>\$ -</u>	<u>\$ 35,286,822</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 467,304	\$ -	\$ -	\$ -	\$ 467,304
Construction in progress	251,725	1,057,803	-	-	1,309,528
	<u>719,029</u>	<u>1,057,803</u>	<u>-</u>	<u>-</u>	<u>1,776,832</u>
Capital assets, being depreciated:					
Buildings	13,239,936	5,269	-	-	13,245,205
Improvements, other than buildings	10,963,408	636,917	-	5,100	11,605,425
Vehicles	48,574	-	-	10,821	59,395
Machinery and equipment	10,324,624	560,454	-	(15,921)	10,869,157
	<u>34,576,542</u>	<u>1,202,640</u>	<u>-</u>	<u>-</u>	<u>35,779,182</u>
Less accumulated depreciation for:					
Buildings	(7,457,245)	(253,325)	-	-	(7,710,570)
Improvements, other than buildings	(5,348,513)	(220,122)	-	340	(5,568,295)
Vehicles	(16,111)	(1,978)	-	1,877	(16,212)
Machinery and equipment	(10,190,125)	(132,449)	-	(2,217)	(10,324,791)
	<u>(23,011,994)</u>	<u>(607,874)</u>	<u>-</u>	<u>-</u>	<u>(23,619,868)</u>
Total capital assets being depreciated, net	<u>11,564,548</u>	<u>594,766</u>	<u>-</u>	<u>-</u>	<u>12,159,314</u>
Business-type activities capital assets, net	<u>\$ 12,283,577</u>	<u>\$ 1,652,569</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,936,146</u>

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

Depreciation of governmental activities by function:	
General government	\$ 125,253
Public safety	155,691
Public works	1,001,944
Community and economic development	4,799
Recreation and culture	84,360
Internal service fund	167,433
	<u>\$ 1,539,480</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Depreciation of business-type activities by function:

Water supply system	\$ 304,187
Sewage disposal system	50,013
Wastewater treatment system	<u>253,674</u>
	<u>\$ 607,874</u>

9. LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt obligation activity can be summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
2009 General Obligation Limited Tax bonds, \$950,000, due in annual installments of \$25,000 to \$75,000 through May 1, 2029, interest at 1.95% to 5.25%, payable semi-annually	\$ 730,000	\$ -	\$ (40,000)	\$ 690,000	\$ 45,000
2010 General Obligation Unlimited Tax bonds, \$960,000, due in annual installments of \$15,000 to \$65,000 through November 1, 2030, interest at 2.35% to 2.43%, payable semi-annually	865,000	-	(30,000)	835,000	40,000
2013 General Obligation Street bonds, \$990,000, due in annual installments of \$20,000 to \$70,000 through November 1, 2033, interest at 0.70% to 4.95%, payable semi-annually	945,000	-	(30,000)	915,000	30,000
2015 capital lease payable, \$324,271, due in annual installments of \$68,096 through June 10, 2019 including interest at 2.40%	194,483	-	(63,236)	131,247	64,815

continued...

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities (concluded)					
2017 General Obligation Unlimited					
Tax bonds, \$4,900,000, due in annual installments of \$220,000 to \$280,000 through May 1, 2037, interest at 1.00% to 3.55%, payable annually	\$ -	\$ 4,900,000	\$ -	\$ 4,900,000	\$ 220,000
CISCO Phone System Installment Purchase, repaid during 2017	25,513	-	(25,513)	-	-
Total	2,759,996	4,900,000	(188,749)	7,471,247	399,815
Compensated absences	366,769	218,343	(248,030)	337,082	84,270
Landfill remediation liability	169,080	-	(169,080)	-	-
Total governmental activities	<u>\$ 3,295,845</u>	<u>\$ 5,118,343</u>	<u>\$ (605,859)</u>	<u>\$ 7,808,329</u>	<u>\$ 484,085</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities					
Revenue Bond Series 2012 Refunding, \$3,800,000 due in annual installments of \$55,000 to \$505,000 through November 1, 2022, interest at 2.00% to 3.25%, payable semi-annually	\$ 2,905,000	\$ -	\$ (330,000)	\$ 2,575,000	\$ 355,000
U.S. Bancorp Installment purchase, \$1,900,000 due in annual installments of \$150,919 through May 15, 2031, interest at 2.63%, payable annually	-	1,900,000	(150,920)	1,749,080	104,988
State Revolving Fund 2009 Sewer System, \$801,786, due in annual installments of \$30,000 to \$55,000 through April 1, 2028, interest at 2.50%, payable semi-annually	541,786	-	(35,000)	506,786	35,000
Total installment debt	3,446,786	1,900,000	(515,920)	4,830,866	494,988
Compensated absences	131,345	120,000	(160,904)	90,441	22,610
Total business-type activities	<u>\$ 3,578,131</u>	<u>\$ 2,020,000</u>	<u>\$ (676,824)</u>	<u>\$ 4,921,307</u>	<u>\$ 517,598</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Discretely-Presented Component Units					
Cass Street loan from primary government, \$211,137, due in annual installments of \$7,151 to \$51,265 through June 30, 2027, interest at 0.06%, payable annually	\$ 176,778	\$ -	\$ (14,324)	\$ 162,454	\$ 10,028
Cargill Brownfield loan from primary government, \$2,120,497, due in annual installments of \$105,900 to \$176,049 through January 1, 2032, interest at 4.00%, payable annually	4,000	1,837,134	-	1,841,134	105,900
Total discretely-presented component units	\$ 180,778	\$ 1,837,134	\$ (14,324)	\$ 2,003,588	\$ 115,928

The capital lease payable is for a Vactor vehicle with a cost of \$404,771 and accumulated depreciation of \$101,193 as of June 30, 2017.

Annual debt service requirements to maturity for the primary government long-term debt are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 399,815	\$ 212,988	\$ 494,988	\$ 130,011
2019	421,432	225,477	532,745	117,055
2020	370,000	216,427	560,575	101,300
2021	380,000	208,110	598,478	84,572
2022	385,000	198,903	636,458	66,792
2023-2027	2,055,000	823,965	1,389,802	158,845
2028-2032	1,980,000	461,196	617,820	38,936
2033-2037	1,480,000	149,073	-	-
	\$ 7,471,247	\$ 2,496,139	\$ 4,830,866	\$ 697,511

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for the component unit long-term debt are as follows:

Year Ended June 30,	Principal	Interest
2018	\$ 115,928	\$ 209,642
2019	120,766	93,714
2020	125,787	88,876
2021	131,065	83,853
2022	136,547	78,577
2023-2027	807,807	274,725
2028-2032	841,715	104,548
	<u>2,279,615</u>	<u>933,935</u>
Remaining available to draw	<u>(276,027)</u>	<u>-</u>
	<u>\$ 2,003,588</u>	<u>\$ 933,935</u>

Compensated absences of the governmental activities are generally liquidated by the general fund and the internal service fund.

Advance Refunding

On August 8, 2012, the City issued revenue bond series 2012 refunding of \$3,800,000. The refunded bonds mature as scheduled on August 8, 2012, through November 1, 2022. The balance of the defeased debt outstanding at year end was \$2,280,000.

The City has pledged substantially all revenue of the water supply system fund, net of operating expenses, to repay the above water supply system revenue bonds. Proceeds from the bonds provided financing for the construction of the water supply system. The bonds are payable solely from the net revenue of the water supply system fund. During the current year, net revenue of the system was \$807,241 compared to the annual debt requirements of approximately \$566,220.

10. RESTRICTED ASSETS

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities
Revenue bond restrictions:		
Revenue bond reserve	\$ -	\$ 2,250,000
Improvement and replacement fund	-	1,710,486
	<u>\$ -</u>	<u>\$ 3,960,486</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefits and participates in the Michigan Municipal Bank Management Authority (risk pool) for claims relating to general and auto liability, auto physical damage and property loss claims, and the Michigan Municipal League for Workers' Compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

The Michigan Municipal Risk Management Authority ("MMRMA") (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remain with the City.

At June 30, 2017, the City has \$214,105 on deposit with the Authority to pay claims. Upon termination of the program, any amounts remaining on deposit after the Authority has settled all claims incurred prior to termination will be returned to the City. The City estimates the liability for claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the net position for the past two fiscal years were as follows:

	2017	2016
Unpaid claims - beginning of year	\$ 114,726	\$ 101,116
Incurred claims and adjustments (including claims incurred but not reported)	11,598	108,032
Claim payments	<u>(54,969)</u>	<u>(94,422)</u>
Unpaid claims - end of year	71,355	114,726
Assets held on deposit with Authority	<u>214,105</u>	<u>149,587</u>
Net position - end of year	<u><u>\$ 142,750</u></u>	<u><u>\$ 34,861</u></u>

12. CONTINGENT LIABILITIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City and its Corporate Counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

13. PENSION PLAN - SINGLE EMPLOYER PENSION TRUST FUND

Employees' Retirement System

Plan Description. The City sponsors and administers the City of Owosso Employees' Retirement Plan (the "Plan"), a single-employer defined benefit pension plan, which covers substantially all the employees of the City, except for certain retired union employees of the American Federation of the State, City, and Municipal Employees and the Police Command Bargaining Unit, both of which participate in the Michigan Municipal Employees' Retirement System. During 2008, the Plan was closed to all new employees under the AFSCME and general union agreements. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Plan is accounted for as a separate pension trust fund. Separate financial statements are not issued for the Plan.

Plan Membership. At December 31, 2016, the date of the most recent valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	88
Inactive, nonretired members	5
Current active members	52
Total membership	<u>145</u>

Benefits Provided. Employees who retire with minimum age and years of service requirements are entitled to annual retirement benefits, payable in monthly installments for life, in an amount equal to a percentage of their final average compensation times years of credited service. Final average compensation is defined as the average of the highest annual compensation paid over 3 consecutive years of credited service within the last 10 years of credited service immediately preceding a member's termination of employment.

Contributions. The contributions requirements of Plan members are established and may be amended by the City Council in accordance with City's policies, union contracts, and Plan provisions. The City is required to contribute at an actuarially determined rate expressed as a percentage of covered payroll. The current rate ranges from 7.0% to 12.0% of annual covered payroll depending on the employee group. Plan members of the general, police non-union and fire contribute at rates of 6.0%, 6.0% and 7.0%, respectively, of their annual salary. The police union members contribute any amount over the City's maximum contribution of 11.0%.

Rate of Return. For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.44%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions. The City's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date using the following actuarial assumptions, applied consistently to all periods included in the measurement:

Wage inflation	3.00%
Price inflation	2.50%
Salary increases	3.00% to 13.0% including inflation
Investment rate of return	7.25%, net of expenses
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected to 2020 using Projection Scale AA.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study as of December 31, 2014.

Investment Policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The Plan's asset allocation policy is shown on the following pages.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equities	52.00%	7.10%	3.69%
International equities	15.00%	6.90%	1.04%
Domestic fixed income	22.50%	2.90%	0.65%
Global fixed income	7.50%	2.80%	0.21%
Cash and cash equivalents	3.00%	1.40%	0.04%
	<u>100.00%</u>		<u>5.63%</u>
Inflation			2.00%
Risk adjustments			<u>-0.38%</u>
Investment rate of return			<u>7.25%</u>

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Changes in the Net Pension Liability. The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	\$ 36,071,503	\$ 31,948,136	\$ 4,123,367
Changes for the year:			
Service cost	432,001	-	432,001
Interest	2,532,569	-	2,532,569
Differences between expected and actual experience	915,114	-	915,114
Employer contributions	-	629,143	(629,143)
Employee contributions	-	234,195	(234,195)
Net investment income (loss)	-	1,684,322	(1,684,322)
Benefit payments, including refunds of employee contributions	(2,711,036)	(2,711,036)	-
Administrative expense	-	(155,668)	155,668
Other - City reimbursed expenses	-	92,956	(92,956)
Other - Audit and education	-	(6,690)	6,690
Net changes	<u>1,168,648</u>	<u>(232,778)</u>	<u>1,401,426</u>
Balances at December 31, 2016	<u>\$ 37,240,151</u>	<u>\$ 31,715,358</u>	<u>\$ 5,524,793</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City's net pension liability	\$ 6,265,651	\$ 5,524,793	\$ 5,054,657

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

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

For the year ended June 30, 2017, the City recognized pension expense of \$1,281,714. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 818,166	\$ 204,592	\$ 613,574
Changes in assumptions	-	445,783	(445,783)
Net difference between projected and actual earnings on pension plan investments	<u>2,138,905</u>	<u>-</u>	<u>2,138,905</u>
	2,957,071	650,375	2,306,696
Contributions subsequent to measurement date	<u>620,833</u>	<u>-</u>	<u>620,833</u>
Total	<u>\$ 3,577,904</u>	<u>\$ 650,375</u>	<u>\$ 2,927,529</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 728,681
2019	681,520
2020	696,850
2021	<u>199,645</u>
Total	<u>\$ 2,306,696</u>

Payable to the Pension Plan. At June 30, 2017, the City did not have any outstanding contributions due to the pension plan required for the year ended June 30, 2017.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

14. PENSION PLAN - AGENT MULTIPLE-EMPLOYER PLAN

General Information About the Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 year period) and multipliers ranging from 2.00% to 2.80%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 55 with 15 years of service or age 50 with 25 years of service. Members contribute 12.00% of their annual salary.

Employees Covered by Benefit Terms. At December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>6</u>
 Total membership	 <u><u>21</u></u>

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Employer contributions are 19.62% of annual payroll.

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

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense and including inflation

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

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	6.54%	0.64%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.00% (down from 8.25% in 2015). The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

Changes in Net Pension Liability

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	\$ 4,799,978	\$ 2,937,099	\$ 1,862,879
Changes for the year:			
Service cost	58,476	-	58,476
Interest	370,415	-	370,415
Differences between expected and actual experience	(6,914)	-	(6,914)
Changes in benefits	5,931	-	5,931
Employer contributions	-	206,166	(206,166)
Employee contributions	-	45,641	(45,641)
Net investment income (loss)	-	328,921	(328,921)
Benefit payments	(398,083)	(398,083)	-
Administrative expense	-	(6,486)	6,486
Net changes	<u>29,825</u>	<u>176,159</u>	<u>(146,334)</u>
Balances at December 31, 2016	<u>\$ 4,829,803</u>	<u>\$ 3,113,258</u>	<u>\$ 1,716,545</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$ 2,217,988	\$ 1,716,545	\$ 1,295,474

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

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

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

For the year ended June 30, 2017, the City recognized pension expense of \$242,680. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 40,991	\$ (40,991)
Changes in assumptions	67,773	-	67,773
Net difference between projected and actual earnings on pension plan investments	<u>125,774</u>	<u>-</u>	<u>125,774</u>
	193,547	40,991	152,556
Contributions subsequent to the measurement date	<u>98,581</u>	<u>-</u>	<u>98,581</u>
Total	<u>\$ 292,128</u>	<u>\$ 40,991</u>	<u>\$ 251,137</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 81,593
2018	50,201
2019	40,776
2020	<u>(20,014)</u>
Total	<u>\$ 152,556</u>

Payable to the Pension Plan. At June 30, 2017, the City had \$9,719 in outstanding contributions due to the pension plan required for the year ended June 30, 2017.

15. DEFINED CONTRIBUTION RETIREMENT PLAN

The City provides pension benefits to the city manager position along with new employees under the AFSCME and general union agreements with a defined contribution plan administered under ICMA for which the City provides employer contributions. In accordance with these requirements, the City contributed \$65,200 during the current year and employees contributed \$67,527 during the year. At June 30, 2017, the City's had no outstanding amounts due to the Plan.

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

16. CONSTRUCTION CODE FEES

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

Shortfall at July 1, 2016	\$ (45,126)
Current year building permit revenue	303,297
Related expenses - Direct costs	<u>(218,797)</u>
Cumulative excess at June 30, 2017	<u>\$ 39,374</u>

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017, was as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Not being depreciated	\$ 5,891,459	\$ 1,776,832
Being depreciated, net	<u>29,395,363</u>	<u>12,159,314</u>
	35,286,822	13,936,146
Related debt:		
Bonds and notes payable	7,471,247	4,830,866
Less unspent bond proceeds	<u>(4,824,244)</u>	<u>-</u>
Net investment in capital assets	<u>\$ 32,639,819</u>	<u>\$ 9,105,280</u>

CITY OF OWOSSO, MICHIGAN

Notes to Financial Statements

18. FUND BALANCE CLASSIFICATIONS

	General Fund	Major Streets Fund	Local Streets Fund	Streets Capital Project Fund	Nonmajor Governmental Funds	Total
Nonspendable:						
Advance to component unit	\$ 1,224,498	\$ -	\$ -	\$ -	\$ -	\$ 1,224,498
Inventories	103,441	-	-	-	-	103,441
Prepays	19,162	-	-	-	-	19,162
Total nonspendable	<u>1,347,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,347,101</u>
Restricted for:						
Debt service	-	-	-	-	417	417
Housing	-	-	-	-	4,515	4,515
Historical	-	-	-	-	73,755	73,755
Street capital projects	-	-	-	4,824,244	-	4,824,244
Revolving loans	-	-	-	-	1,266,420	1,266,420
Skate park donations	21,409	-	-	-	-	21,409
Building code enforcement	39,374	-	-	-	-	39,374
Streets	-	569,372	102,587	-	-	671,959
Total restricted	<u>60,783</u>	<u>569,372</u>	<u>102,587</u>	<u>4,824,244</u>	<u>1,345,107</u>	<u>6,902,093</u>
Assigned for:						
Unfunded pension liability	1,592,689	-	-	-	-	1,592,689
Building Authority	-	-	-	-	35,964	35,964
DDA construction	-	-	-	-	35,652	35,652
Subdivision	-	-	-	-	51,643	51,643
Subdivision debt	186,357	-	-	-	-	186,357
Compensated absences	337,082	-	-	-	-	337,082
Special assessment	100,000	-	-	-	-	100,000
Economic development	500,000	-	-	-	-	500,000
Owosso drain	156,780	-	-	-	-	156,780
Total assigned	<u>2,872,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,259</u>	<u>2,996,167</u>
Unassigned	<u>1,734,516</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,734,516</u>
Total fund balances - governmental funds	<u>\$ 6,015,308</u>	<u>\$ 569,372</u>	<u>\$ 102,587</u>	<u>\$ 4,824,244</u>	<u>\$ 1,468,366</u>	<u>\$ 12,979,877</u>

20. SUBSEQUENT EVENTS

Subsequent to year end, the City entered into a contract for Phase I of the Hintz Road Well Field Rehabilitation project in the amount of approximately \$127,173 plus a contingency of \$38,000. The City also entered into a contract to purchase a Ford F550 Mini Pumper in the amount of approximately \$210,960 subsequent to year end.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OWOSSO, MICHIGAN

Required Supplementary Information

Employees' Retirement System Single Employer Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

	Fiscal Year Ended June 30,		
	2017	2016	2015
Total pension liability			
Service cost	\$ 432,001	\$ 442,936	\$ 476,628
Interest	2,532,569	2,586,834	2,525,333
Differences between expected and actual experience	915,114	(373,598)	345,843
Changes in assumptions	-	(814,031)	-
Benefit payments, including refunds of employee contributions	(2,711,036)	(2,510,549)	(2,454,795)
Other	-	25,639	-
Net change in total pension liability	1,168,648	(642,769)	893,009
Total pension liability, beginning of year	36,071,503	36,714,272	35,821,263
Total pension liability, end of year	37,240,151	36,071,503	36,714,272
Plan fiduciary net position			
Employer contributions	629,143	600,769	701,388
Employee contributions	234,195	238,860	221,638
Net investment income (loss)	1,684,322	(8,045)	1,858,842
Benefit payments, including refunds of employee contributions	(2,711,036)	(2,510,549)	(2,454,795)
Administrative expense	(155,668)	(56,618)	(36,025)
Other - city reimbursed expenses	92,956	-	-
Other - Audit and education	(6,690)	-	-
Net change in plan fiduciary net position	(232,778)	(1,444,535)	291,048
Plan fiduciary net position, beginning of year	31,948,136	33,683,719	33,392,671
Plan fiduciary net position, end of year	31,715,358	31,948,136	33,683,719
City's net pension liability	\$ 5,524,793	\$ 4,123,367	\$ 3,030,553
Plan fiduciary net position as a percentage of total pension liability	85.2%	88.6%	91.7%
Covered payroll	\$ 2,786,412	\$ 2,891,530	\$ 2,938,821
City's net pension liability as a percentage of covered payroll	198.3%	142.6%	103.1%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

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

CITY OF OWOSSO, MICHIGAN

Required Supplementary Information

Employees' Retirement System Single Employer Pension Plan

Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 36,714,272	\$ 33,683,719	\$ 3,030,553	91.7%	\$ 2,938,821	103.1%
2016	36,071,503	31,948,136	4,123,367	88.6%	2,891,530	142.6%
2017	37,240,151	31,715,358	5,524,793	85.2%	2,786,412	198.3%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

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

CITY OF OWOSSO, MICHIGAN

Required Supplementary Information

Employees' Retirement System Single Employer Pension Plan

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 559,281	\$ 559,281	\$ -	\$ 3,028,775	18.5%
2016	600,769	600,769	-	2,761,338	21.8%
2017	629,143	629,143	-	2,124,150	29.6%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal for open groups, aggregate for closed groups
Amortization method	Level percent of payroll for open groups, dollar level for closed groups
Remaining amortization period	14-year closed period
Asset valuation method	4-year smooth market
Wage inflation	3.00%
Price inflation	No explicit price inflation assumption was used
Salary increases	3.00% to 13.0% including inflation
Investment rate of return	7.25%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Healthy Mortality Table projected to 2020 using Projection Scale AA.

CITY OF OWOSSO, MICHIGAN

Required Supplementary Information Employees' Retirement System Single Employer Pension Plan

Schedule of Investment Returns

Fiscal Year Ending December 31,	Annual Return ⁽¹⁾
2014	0.36%
2015	-1.28%
2016	14.44%

⁽¹⁾ Annual money-weighted rate of return, net of investment expenses

Note: GASB 67 was implemented in the pension trust fund's fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

CITY OF OWOSSO, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in the City's Net Pension Liability and Related Ratios

	Fiscal Year Ended June 30,		
	2017	2016	2015
Total pension liability			
Service cost	\$ 58,476	\$ 59,072	\$ 56,663
Interest	370,415	367,218	364,054
Differences between expected and actual experience	(6,914)	(109,144)	-
Changes in assumptions	-	203,319	-
Changes in benefits	5,931	50,916	-
Benefit payments, including refunds of employee contributions	(398,083)	(385,997)	(381,134)
Net change in total pension liability	29,825	185,384	39,583
Total pension liability, beginning of year	4,799,978	4,614,594	4,575,011
Total pension liability, end of year	4,829,803	4,799,978	4,614,594
Plan fiduciary net position			
Employer contributions	206,166	45,863	50,484
Employee contributions	45,641	59,586	59,724
Net investment income (loss)	328,921	(45,980)	205,685
Benefit payments, including refunds of employee contributions	(398,083)	(385,997)	(381,134)
Administrative expense	(6,486)	(6,899)	(7,495)
Net change in plan fiduciary net position	176,159	(333,427)	(72,736)
Plan fiduciary net position, beginning of year	2,937,099	3,270,526	3,343,262
Plan fiduciary net position, end of year	3,113,258	2,937,099	3,270,526
City's net pension liability	\$ 1,716,545	\$ 1,862,879	\$ 1,344,068
Plan fiduciary net position as a percentage of total pension liability	64.5%	61.2%	70.9%
Covered payroll	\$ 413,925	\$ 313,381	\$ 339,241
City's net pension liability as a percentage of covered payroll	414.7%	594.4%	396.2%

Notes:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

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

CITY OF OWOSSO, MICHIGAN

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

Schedule of the City's Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2015	\$ 4,614,594	\$ 3,270,526	\$ 1,344,068	70.9%	\$ 339,241	396.2%
2016	4,799,978	2,937,099	1,862,879	61.2%	313,381	594.4%
2017	4,829,803	3,113,258	1,716,545	64.5%	413,925	414.7%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

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

CITY OF OWOSSO, MICHIGAN

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

Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 46,402	\$ 46,402	\$ -	\$ 311,669	14.9%
2016	81,621	81,621	-	430,897	18.9%
2017	128,079	128,079	-	424,603	30.2%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	24 years
Asset valuation method	Open; 10-year smooth market
Inflation	3.0% to 4.0%
Salary increases	4.75% in the long-term (2.0% and 3.0% for calendar years 2015 and 2016, respectively)
Investment rate of return	8.00%, net of investment and administrative expenses including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations.
Mortality	1994 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.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

CITY OF OWOSSO, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue	Debt Service	Capital Projects	Total
Assets				
Cash and investments	\$ 1,049,413	\$ 417	\$ 71,616	\$ 1,121,446
Receivables, net:				
Accounts	358,052	-	-	358,052
Special assessments	-	191,612	-	191,612
Land held for sale	-	-	238,000	238,000
Total assets	<u>\$ 1,407,465</u>	<u>\$ 192,029</u>	<u>\$ 309,616</u>	<u>\$ 1,909,110</u>
Liabilities				
Accounts payable	\$ 49,818	\$ -	\$ -	\$ 49,818
Accrued liabilities	10,341	-	-	10,341
Accrued wages	1,908	-	-	1,908
Due to other funds	708	-	186,357	187,065
Total liabilities	<u>62,775</u>	<u>-</u>	<u>186,357</u>	<u>249,132</u>
Deferred inflows of resources				
Unavailable revenue - special assessments	-	191,612	-	191,612
Fund balances				
Restricted	1,344,690	417	-	1,345,107
Assigned	-	-	123,259	123,259
Total fund balances	<u>1,344,690</u>	<u>417</u>	<u>123,259</u>	<u>1,468,366</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,407,465</u>	<u>\$ 192,029</u>	<u>\$ 309,616</u>	<u>\$ 1,909,110</u>

CITY OF OWOSSO, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2017

	Special Revenue	Debt Service	Capital Projects	Total
Revenues				
Property taxes	\$ -	\$ 132,694	\$ -	\$ 132,694
Intergovernmental	167,953	76,818	-	244,771
Charges for services	12,650	-	-	12,650
Sales	2,632	-	-	2,632
Interest	128	-	37	165
Miscellaneous	24,142	-	-	24,142
Total revenues	207,505	209,512	37	417,054
Expenditures				
Current:				
General government:				
General and administrative	262,311	-	-	262,311
Preservation and maintenance	6,793	-	-	6,793
Other	950	-	6,335	7,285
Debt service:				
Principal	-	100,000	-	100,000
Interest	-	110,400	-	110,400
Total expenditures	270,054	210,400	6,335	486,789
Revenues over (under) expenditures	(62,549)	(888)	(6,298)	(69,735)
Other financing sources (uses)				
Transfers in	49,405	-	-	49,405
Transfers out	(2,482)	-	(844,628)	(847,110)
Total other financing sources (uses)	46,923	-	(844,628)	(797,705)
Net change in fund balances	(15,626)	(888)	(850,926)	(867,440)
Fund balances, beginning of year	1,360,316	1,305	974,185	2,335,806
Fund balances, end of year	\$ 1,344,690	\$ 417	\$ 123,259	\$ 1,468,366

CITY OF OWOSSO, MICHIGAN

Combining Balance Sheet Nonmajor Special Revenue Funds June 30, 2017

	Revolving Loan	Housing and Redevelopment	Historical	Total
Assets				
Cash and investments	\$ 948,995	\$ 17,107	\$ 83,311	\$ 1,049,413
Accounts receivable, net	317,425	40,627	-	358,052
Total assets	\$ 1,266,420	\$ 57,734	\$ 83,311	\$ 1,407,465
Liabilities				
Accounts payable	\$ -	\$ 43,078	\$ 6,740	\$ 49,818
Accrued liabilities	-	10,141	200	10,341
Accrued wages	-	-	1,908	1,908
Due to other funds	-	-	708	708
Total liabilities	-	53,219	9,556	62,775
Fund balances				
Restricted	1,266,420	4,515	73,755	1,344,690
Total liabilities and fund balances	\$ 1,266,420	\$ 57,734	\$ 83,311	\$ 1,407,465

CITY OF OWOSSO, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Special Revenue Funds For the Year Ended June 30, 2017

	Revolving Loan	Housing and Redevelopment	Historical	Total
Revenues				
Intergovernmental	\$ 4,536	\$ 163,417	\$ -	\$ 167,953
Charges for services	-	-	12,650	12,650
Sales	-	-	2,632	2,632
Interest	34	-	94	128
Miscellaneous	-	-	24,142	24,142
Total revenues	4,570	163,417	39,518	207,505
Expenditures				
Current:				
General government:				
General and administrative	-	161,399	100,912	262,311
Preservation and maintenance	-	-	6,793	6,793
Other	950	-	-	950
Total expenditures	950	161,399	107,705	270,054
Revenues over (under) expenditures	3,620	2,018	(68,187)	(62,549)
Other financing sources (uses)				
Transfers in	-	2,482	46,923	49,405
Transfers out	(2,482)	-	-	(2,482)
Total other financing sources (uses)	(2,482)	2,482	46,923	46,923
Net change in fund balances	1,138	4,500	(21,264)	(15,626)
Fund balances, beginning of year	1,265,282	15	95,019	1,360,316
Fund balances, end of year	\$ 1,266,420	\$ 4,515	\$ 73,755	\$ 1,344,690

CITY OF OWOSSO, MICHIGAN

Combining Balance Sheet
 Nonmajor Debt Service Funds
 June 30, 2017

	2013 General Obligation Bonds	2010 General Obligation Bonds	2009 Limited Tax General Obligation Bonds	2014 Special Assessment Limited Tax Bonds	2013 Special Assessment Limited Tax Bonds
Assets					
Cash and investments	\$ 395	\$ 13	\$ -	\$ -	\$ -
Special assessments	-	-	-	13,385	20,957
Total assets	<u>\$ 395</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 13,385</u>	<u>\$ 20,957</u>
Deferred inflows of resources					
Unavailable revenue special assessments	\$ -	\$ -	\$ -	\$ 13,385	\$ 20,957
Fund balances					
Restricted	<u>395</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources and fund balances	<u>\$ 395</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 13,385</u>	<u>\$ 20,957</u>

2012 Special Assessment Limited Tax Bonds	2011 Special Assessment Limited Tax Bonds	2010 Special Assessment Limited Tax Bonds	2009 Special Assessment Limited Tax Bonds	2008 Special Assessment Limited Tax Bonds	2016 Special Assessment Limited Tax Bonds	Total
\$ - 64,203	\$ - 32,196	\$ - 5,663	\$ 9 4,045	\$ - 1,744	\$ - 49,419	\$ 417 191,612
<u>\$ 64,203</u>	<u>\$ 32,196</u>	<u>\$ 5,663</u>	<u>\$ 4,054</u>	<u>\$ 1,744</u>	<u>\$ 49,419</u>	<u>\$ 192,029</u>
\$ 64,203	\$ 32,196	\$ 5,663	\$ 4,045	\$ 1,744	\$ 49,419	\$ 191,612
-	-	-	9	-	-	417
<u>\$ 64,203</u>	<u>\$ 32,196</u>	<u>\$ 5,663</u>	<u>\$ 4,054</u>	<u>\$ 1,744</u>	<u>\$ 49,419</u>	<u>\$ 192,029</u>

CITY OF OWOSSO, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Debt Service Funds
 For the Year Ended June 30, 2017

	2013 General Obligation Bonds	2010 General Obligation Bonds	2009 Limited Tax General Obligation Bonds	2014 Special Assessment Limited Tax Bonds	2013 Special Assessment Limited Tax Bonds
Revenues					
Property taxes	\$ 66,746	\$ 65,948	\$ -	\$ -	\$ -
Intergovernmental	-	-	76,818	-	-
Total revenues	<u>66,746</u>	<u>65,948</u>	<u>76,818</u>	<u>-</u>	<u>-</u>
Expenditures					
Debt service:					
Principal	30,000	30,000	40,000	-	-
Interest	37,018	35,948	36,818	615	-
Total expenditures	<u>67,018</u>	<u>65,948</u>	<u>76,818</u>	<u>615</u>	<u>-</u>
Net change in fund balances	(272)	-	-	(615)	-
Fund balances, beginning of year	<u>667</u>	<u>13</u>	<u>-</u>	<u>615</u>	<u>-</u>
Fund balances, end of year	<u>\$ 395</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



2012 Special Assessment Limited Tax Bonds	2011 Special Assessment Limited Tax Bonds	2010 Special Assessment Limited Tax Bonds	2009 Special Assessment Limited Tax Bonds	2008 Special Assessment Limited Tax Bonds	2016 Special Assessment Limited Tax Bonds	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,694
-	-	-	-	-	-	76,818
-	-	-	-	-	-	209,512
-	-	-	-	-	-	100,000
-	-	-	1	-	-	110,400
-	-	-	1	-	-	210,400
-	-	-	(1)	-	-	(888)
-	-	-	10	-	-	1,305
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 417</u>

CITY OF OWOSSO, MICHIGAN

Combining Balance Sheet
 Nonmajor Capital Projects Funds
 June 30, 2017

	Capital Projects	Building Authority	DDA Construction Fund	Subdivision	Total
Assets					
Cash and investments	\$ -	\$ 35,964	\$ 35,652	\$ -	\$ 71,616
Land held for sale	-	-	-	238,000	238,000
Total assets	<u>\$ -</u>	<u>\$ 35,964</u>	<u>\$ 35,652</u>	<u>\$ 238,000</u>	<u>\$ 309,616</u>
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ 186,357	\$ 186,357
Fund balances					
Assigned	-	35,964	35,652	51,643	123,259
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 35,964</u>	<u>\$ 35,652</u>	<u>\$ 238,000</u>	<u>\$ 309,616</u>

CITY OF OWOSSO, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Capital Projects Funds
 For the Year Ended June 30, 2017

	Capital Projects	Building Authority	DDA Construction Fund	Subdivision	Total
Revenues					
Interest	\$ -	\$ -	\$ 37	\$ -	\$ 37
Expenditures					
Current:					
General government:					
Other	-	-	-	6,335	6,335
Revenues over (under) expenditures	-	-	37	(6,335)	(6,298)
Other financing uses					
Transfers out	(844,628)	-	-	-	(844,628)
Net change in fund balances	(844,628)	-	37	(6,335)	(850,926)
Fund balances, beginning of year	844,628	35,964	35,615	57,978	974,185
Fund balances, end of year	\$ -	\$ 35,964	\$ 35,652	\$ 51,643	\$ 123,259

CITY OF OWOSSO, MICHIGAN

Statement of Net Position and Governmental Fund Balance Sheet

Brownfield Redevelopment Authority Component Unit

June 30, 2017

	Balance Sheet	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 895,099	\$ -	\$ 895,099
Accounts receivable	14,216	-	14,216
Inventories	65,700	-	65,700
Total assets	\$ 975,015	-	975,015
Liabilities			
Accounts payable	\$ 478,265	-	478,265
Due to other governments	65,700	13,575	79,275
Long-term debt:			
Due within one year	-	115,928	115,928
Due in more than one year	-	1,887,660	1,887,660
Total liabilities	543,965	2,017,163	2,561,128
Deferred inflows of resources			
Unavailable revenue - other	14,216	(14,216)	-
Fund balances			
Nonspendable	65,700	(65,700)	-
Unassigned	351,134	(351,134)	-
Total fund balances	416,834	(416,834)	-
Total liabilities, deferred inflows of resources and fund balances	\$ 975,015		
Net position			
Unrestricted (deficit)		\$ (1,666,029)	\$ (1,586,113)

CITY OF OWOSSO, MICHIGAN

Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Change in Fund Balance Brownfield Redevelopment Authority Component Unit For the Year Ended June 30, 2017

	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues			
Intergovernmental	\$ 8,904	\$ -	\$ 8,904
State grant	697,462	14,216	711,678
Taxes	95,421	-	95,421
	<u>801,787</u>	<u>14,216</u>	<u>816,003</u>
Total revenues			
Expenditures/expenses			
Current			
Capital contributions	2,112,914	-	2,112,914
Administration	16,228	-	16,228
Other	79,239	-	79,239
Debt service -			
Principal	14,324	(14,324)	-
	<u>2,222,705</u>	<u>(14,324)</u>	<u>2,208,381</u>
Total expenditures			
Revenues over (under) expenditures/expenses	(1,420,918)	28,540	(1,392,378)
Other financing sources			
Issuance of debt	1,837,134	(1,837,134)	-
	<u>416,216</u>	<u>(1,808,594)</u>	<u>(1,392,378)</u>
Net change in fund balance/net position			
Fund balance/net position (deficit), beginning of year	618	(194,353)	(193,735)
	<u>\$ 416,834</u>	<u>\$ (2,002,947)</u>	<u>\$ (1,586,113)</u>
Fund balance/net position (deficit), end of year			

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

December 8, 2017

To the City Council
City of Owosso
Owosso, MI

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Owosso, Michigan* (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2017. The Downtown Development Authority component unit was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Lobson LLC