

**City of St. Joseph
Berrien County, Michigan**

FINANCIAL STATEMENTS

June 30, 2016

City of St. Joseph

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INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of St. Joseph, 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 St. Joseph, Michigan (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of St. Joseph Housing Commission, which represent 98 percent, 98 percent, and 92 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Southwest Michigan Regional Airport Authority, which represents 15 percent, 16 percent, and 0 percent, respectively, of the assets, net position, and revenues of the governmental activities. We did not audit the financial statements of the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant, which represents 25 percent, 32 percent, and 4 percent, respectively, of the assets, net position, and revenues of the business-type activities and 71 percent, 76 percent, and 17 percent, respectively, of the assets, net position, and revenues of the Sewer Fund, which is a major fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they related to the amounts included for the aggregate discretely presented component units, governmental activities, the business-type activities, and the Sewer Fund, are based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Changes in Accounting Principles

As discussed in Note P to the financial statements, during the year the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the year. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statements also provides guidance for applying fair value to certain investments and disclosures related to fair value measurement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other 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 nonmajor fund financial statements and debt schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and debt schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and debt schedules 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 October 7, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 7, 2016

City of St. Joseph

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

This discussion and analysis of the City of St. Joseph's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements.

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 2015-2016 fiscal year by \$109,585,336. Of this amount, \$36,360,171 is not restricted and may be used to meet the ongoing obligations of residents and creditors.
- The City's total net position increased by \$2,026,728.
- At the close of the current fiscal year, the City's Governmental Funds reported combined ending fund balances of \$10,540,774, an increase of \$530,440 in comparison with the prior fiscal year. Approximately \$1,954,504 of this total amount is available for spending at the government's discretion.
- At the end of the current fiscal year, the General Fund's fund balance was \$2,960,997 or approximately 40.84% of total general fund expenditures.
- The City's total debt decreased by \$1,215,390 to \$15,941,887, well below the debt limitations set by State statutes.

Overview of the Financial Statements

This analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include the following three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

In addition to the basic financial statements themselves, this report also contains other supplementary information.

1. Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide the reader 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 and deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 City'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 such as unused vacation leave.

Both of these Government-Wide Financial Statements distinguish City functions, which are principally supported by taxes and intergovernmental revenues from those City functions that are intended to recover all or significant portions of their costs through user fees and charges for services. The governmental activities of the City include general government, public safety, public works, sanitation, health and welfare, recreation and culture, community and economic development and debt service. The business-type activities of the City include Sewer, Water, City Water, Ice Arena, and Marina operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

The Government-Wide Financial Statements include not only the City itself, but also a legally separate Downtown Development Authority and the St. Joseph Housing Commission for which the City is financially accountable. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

Because the focus of Governmental Funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, the reader may better understand the long-term impact of the City's near-term financing decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

The City maintains approximately 20 individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. The City's major governmental funds for fiscal year 2016 include the General Fund and the Capital Improvement Fund. Data for the other government funds are combined into a single, aggregate presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements reported in the other supplementary information.

The City adopts an annual appropriated budget for its General Fund and all special revenue funds. A budgetary comparison statement has been provided for the General Fund and any major special revenue funds to demonstrate compliance with this budget.

Proprietary Funds

The City maintains two different types of proprietary funds, the enterprise funds and the internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses enterprise funds to account for its water, sewer, ice arena, and marina operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and heavy equipment and for its self-insurance and employee health care needs. Because the internal services predominantly benefit government rather than business-type functions, the internal service funds have been included within Governmental Activities in the Government-Wide Financial Statements.

City of St. Joseph

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Proprietary funds provide the same type of information as the Government-Wide Financial Statements, only in more detail. The City's major enterprise funds for fiscal year 2016 include the Sewer Fund, Water Fund, and City Water Fund. Data for the other enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of the nonmajor enterprise funds is provided in the form of combining statements reported in the other supplementary information. Conversely, all three internal service funds are combined into a single, aggregated presentation in the Proprietary Fund Financial Statements. Individual fund data for the internal service funds is provided in the form of combining statements reported in the other supplementary information.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

3. Note to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

4. Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$109,585,336 at the close of the 2015-2016 fiscal year.

By far the largest portion of the City's net position reflects its investment in capital assets, less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table shows, in a condensed format, the current year's net position for the years ended June 30, 2016 and 2015:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 24,144,485	\$ 11,707,232	\$ 22,077,427	\$ 21,463,243	\$ 46,221,912	\$ 33,170,475
Capital assets	52,130,606	50,642,160	29,681,833	30,114,676	81,812,439	80,756,836
Total assets	76,275,091	62,349,392	51,759,260	51,577,919	128,034,351	113,927,311
Deferred outflow of resources	5,584,393	3,307,995	-	-	5,584,393	3,307,995
Current liabilities	1,750,237	1,322,545	1,579,277	1,755,252	3,329,514	3,077,797
Noncurrent liabilities	10,137,416	8,088,582	9,042,386	9,603,278	19,179,802	17,691,860
Total liabilities	11,887,653	9,411,127	10,621,663	11,358,530	22,509,316	20,769,657
Deferred inflow of resources	1,178,317	813,193	-	-	1,178,317	813,193

City of St. Joseph

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Net position						
Net investment in capital assets	\$ 46,184,382	\$ 43,975,011	\$ 20,092,731	\$ 19,966,685	\$ 66,277,113	\$ 63,941,696
Restricted	9,294,367	6,959,294	-	-	9,294,367	6,959,294
Unrestricted	13,314,765	16,404,337	21,044,866	20,252,704	34,359,631	36,657,041
Total net position	<u>\$ 68,793,514</u>	<u>\$ 67,338,642</u>	<u>\$ 41,137,597</u>	<u>\$ 40,219,389</u>	<u>\$ 109,931,111</u>	<u>\$ 107,558,031</u>

A portion of the City's net position, \$8,948,052, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$34,360,171 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental, business-type activities, and component units.

The following table illustrates the varying results of the governmental activities and business-type activities, which combine to capture the City's total net position, for the years ended June 30, 2016 and 2015.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 2,685,769	\$ 2,182,947	\$ 7,614,923	\$ 7,540,384	\$ 10,300,692	\$ 9,723,331
Grants and contributions	3,693,454	2,154,386	46,307	129,729	3,739,761	2,284,115
General revenues						
Property taxes	7,283,611	7,200,873	-	-	7,283,611	7,200,873
State shared revenue	846,257	852,956	-	-	846,257	852,956
Investment earnings	18,872	20,163	8,446	9,498	27,318	29,661
Miscellaneous	166,022	381,310	45,819	11,686	211,841	392,996
Transfers	341,335	2,156,847	(341,335)	(2,156,847)	-0-	-0-
Total revenues	<u>15,035,320</u>	<u>14,949,482</u>	<u>7,374,160</u>	<u>5,534,450</u>	<u>22,409,480</u>	<u>20,483,932</u>
Expenses						
General government	1,485,814	1,518,305	-	-	1,485,814	1,518,305
Public safety	4,489,713	3,979,462	-	-	4,489,713	3,979,462
Public works	3,520,502	3,763,484	-	-	3,520,502	3,763,484
Health and welfare	50,549	33,113	-	-	50,549	33,113
Community and economic development	438,649	580,132	-	-	438,649	580,132
Recreation and culture	3,398,890	2,685,553	-	-	3,398,890	2,685,553
Sewer system	-	-	1,326,700	1,307,631	1,326,700	1,307,631
Water system	-	-	4,943,680	4,841,174	4,943,680	4,841,174
Ice arena	-	-	-	231,356	-0-	231,356
Marina	-	-	531,347	390,214	531,347	390,214
Other	196,908	208,009	-	-	196,908	208,009
Total expenses	<u>13,581,025</u>	<u>12,768,058</u>	<u>6,801,727</u>	<u>6,770,375</u>	<u>20,382,752</u>	<u>19,538,433</u>
Change in net position	<u>\$ 1,454,295</u>	<u>\$ 2,181,424</u>	<u>\$ 572,433</u>	<u>\$ (1,235,925)</u>	<u>\$ 2,026,728</u>	<u>\$ 945,499</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Governmental Activities

Governmental Activities increased the City's net position by \$1,454,295. Property taxes were \$7,283,611 or approximately 48% of the total governmental revenues. Grants and contributions were \$3,693,454 or approximately 25% of the total governmental revenues. The remaining 27% is mostly composed of various charges for services, state revenues, and other miscellaneous revenue. Governmental expenditures increased overall by \$812,967 most dramatically in the General Government expenditures where staffing vacancies, including management level positions, occurred.

Business-Type Activities

Business-type Activities increased the City's net position by \$572,433. Charges for services, including water sales, were \$7,614,923, the majority of the total business-type revenues, with the remaining mostly composed of various fees and interest revenue. Business-type expenditures increased overall by just \$31,352.

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved 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 \$10,540,774, an increase of \$530,440 in comparison with the prior fiscal year. Approximately 19% of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remaining 81% is reserved for specific government functions.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$2,960,997 which represents roughly 41% of total General Fund expenditures and other financing uses. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the City's General Fund increased \$76,487 from the previous fiscal year.

The Capital Improvement Fund is a capital projects fund used to account for restricted financial resources (i.e., intergovernmental and contributions) that are used toward improvements within the City.

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 Sewer Fund reported net position of \$17,070,217, an increase of \$139,403 from the prior fiscal year. The net position balance is divided between \$2,880,330 net investment in capital assets and \$14,189,887 as unrestricted.

The Water Fund reported net position of \$13,678,563, an increase of \$109,051 from the prior fiscal year. The net position balance is divided between \$9,161,277 net investment in capital assets and \$4,517,286 as unrestricted.

The City Water Fund reported net position of \$7,417,865, an increase of \$227,021 from the prior fiscal year. The net position balance is divided between \$5,855,929 net investment in capital assets and \$1,561,936 as unrestricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

General Fund Budgetary Highlights

The City's budget is a dynamic document. Although adopted in June (prior to the start of the fiscal year), the budget is routinely amended during the course of the year to reflect changing operational demands. For the General Fund, the City Commission originally appropriated \$8,201,000 to cover anticipated operating expenditures and a total of \$8,665,100 to cover both operations and other financing uses, including transfers to other funds. The City Commission's final amendment to the budget resulted in no change to revenues and increased anticipated expenditures and other financing uses by \$245,400 to \$8,910,500. The most significant budget adjustments can be noted in the Public Works function and the transfers out of the General Fund.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, was \$81,812,439 (net of depreciation), an increase of \$1,055,603 over the previous fiscal year. This investment in capital assets includes land, buildings and improvements, infrastructure, books, furniture and equipment, land improvements, vehicles, and utility systems.

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

- Botham Avenue Reconstruction
- Park Street Bridge Rehabilitation
- Fire Station Mold Remediation and Building Rehabilitation
- Lions Beach Playground Replacement
- St. Joseph Lighthouse Restoration

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$14,634,976. The City's total debt decreased as a result of scheduled payments on outstanding debt made throughout the year.

State statutes limit the amount of general obligation bond debt governmental entities may issue to 10% of its total state equalized valuation and the amount of general obligation installment note debt 1.25% of its total state equalized valuation, exclusive of interest. The current debt limitation for the City is \$50,876,849 for bond debt and \$6,359,606 for note debt, which is significantly in excess of the City's outstanding general obligation debt.

Next Year's Budget and Rates

The City's budget for the 2016/2017 fiscal year is balanced with no property tax rate increase. Total expenses in the General Fund for the 2016/2017 fiscal year are estimated to be \$8.5 million. Economic factors contributing to the total expenses for 2016/2017 include General Fund contributions to the street, cemetery, rubbish funds and lighthouse funds.

In FY 2014/2015 the City was awarded a \$1 million Stormwater/Asset Management/Wastewater (SAW) grant by the State of Michigan to begin the initial planning phases of a comprehensive asset management plan. In Phase I of this plan, long-term improvements to city infrastructure, including sanitary sewer, storm sewer, water, and streets have begun to be identified. A computerized maintenance management system has been installed and will be used to track and prioritize maintenance, repair and replacement of city infrastructure in the most timely and cost-effective way. The City recognizes that this long-term planning is the foundation to the development of a financial strategy that will ensure continuation of quality services while maintaining a strong fiscal position.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City, 700 Broad Street, St. Joseph, Michigan, 49085.

BASIC FINANCIAL STATEMENTS

City of St. Joseph

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
ASSETS				
Current assets				
Cash and cash equivalents	\$ 11,150,621	\$ 7,499,409	\$ 18,650,030	\$ 501,296
Receivables	60,873	1,265,608	1,326,481	46
Due from other governmental units	160,063	-	160,063	431
Internal balances	2,400	(2,400)	-0-	-
Inventories	98,345	122,828	221,173	5,760
Prepays	40,207	-	40,207	27,416
Total current assets	11,512,509	8,885,445	20,397,954	534,949
Noncurrent assets				
Investments	1,384,133	-	1,384,133	-
Investment in joint venture	11,247,843	13,191,982	24,439,825	-
Capital assets not being depreciated	13,718,428	1,240,132	14,958,560	31,764
Capital assets being depreciated, net	38,412,178	28,441,701	66,853,879	1,123,367
Net pension asset	-	-	-0-	7,033
Total noncurrent assets	64,762,582	42,873,815	107,636,397	1,162,164
TOTAL ASSETS	76,275,091	51,759,260	128,034,351	1,697,113
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	5,584,393	-	5,584,393	90,381
LIABILITIES				
Current liabilities				
Accounts payable	281,137	500,662	781,799	52,861
Accrued liabilities	355,769	78,689	434,458	13,240
Tenant security deposit liability	-	-	-0-	30,513
Accrued interest payable	42,738	55,010	97,748	-
Due to other governmental units	-	299,218	299,218	1,804
Unearned revenue	24,992	-	24,992	6,680
Current portion of compensated absences	307,579	76,809	384,388	4,895
Current portion of long-term debt	738,022	568,889	1,306,911	14,776
Total current liabilities	1,750,237	1,579,277	3,329,514	124,769
Noncurrent liabilities				
Net pension liability	2,794,494	-	2,794,494	-
Noncurrent portion of compensated absences	-	22,173	22,173	-
Noncurrent portion of long-term debt	5,208,202	9,020,213	14,228,415	142,210
Net other post-employment benefits obligation	2,134,720	-	2,134,720	-
Total noncurrent liabilities	10,137,416	9,042,386	19,179,802	142,210
TOTAL LIABILITIES	11,887,653	10,621,663	22,509,316	266,979
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	1,178,317	-	1,178,317	19,520
NET POSITION				
Net investment in capital assets	46,184,382	20,092,731	66,277,113	998,145
Restricted				
Streets and highways	2,855,404	-	2,855,404	-
Sanitation	12,145	-	12,145	-
Public safety	338,179	-	338,179	-
Capital improvement				
Expendable	2,716,771	-	2,716,771	-
Nonexpendable	497,354	-	497,354	-
Debt service	652,893	-	652,893	-
Pensions	1,611,582	-	1,611,582	-
Other	610,039	-	610,039	-
Unrestricted	13,314,765	21,044,866	34,359,631	502,850
TOTAL NET POSITION	\$ 68,793,514	\$ 41,137,597	\$ 109,931,111	\$ 1,500,995

See accompanying notes to financial statements.

City of St. Joseph
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,485,814	\$ 2,220,146	\$ 276,868	\$ -	\$ 1,011,200	\$ -	\$ 1,011,200	\$ -
Public safety	4,489,713	280,937	3,459	-	(4,205,317)	-	(4,205,317)	-
Public works	3,520,502	2,559	1,162,373	436,709	(1,918,861)	-	(1,918,861)	-
Health and welfare	50,549	-	-	-	(50,549)	-	(50,549)	-
Community and economic development	438,649	-	-	-	(438,649)	-	(438,649)	-
Recreation and culture	3,398,890	182,127	380,118	1,433,927	(1,402,718)	-	(1,402,718)	-
Interest and fees on long-term debt	196,908	-	-	-	(196,908)	-	(196,908)	-
Total governmental activities	13,581,025	2,685,769	1,822,818	1,870,636	(7,201,802)	-0-	(7,201,802)	-0-
Business-type activities								
Sewer system	1,326,700	1,679,212	46,307	-	-	398,819	398,819	-
Water system	4,943,680	5,307,694	-	-	-	364,014	364,014	-
Marina	531,347	628,017	-	-	-	96,670	96,670	-
Total business-type activities	6,801,727	7,614,923	46,307	-0-	-0-	859,503	859,503	-0-
Total primary government	\$ 20,382,752	\$ 10,300,692	\$ 1,869,125	\$ 1,870,636	(7,201,802)	859,503	(6,342,299)	-0-
Component units								
Downtown Development Authority	\$ 88,143	\$ -	\$ -	\$ 5,000	-	-	-0-	(83,143)
Housing Commission	733,611	406,499	187,715	11,364	-	-	-0-	(128,033)
Total component units	\$ 821,754	\$ 406,499	\$ 187,715	\$ 16,364	-0-	-0-	-0-	(211,176)
General revenues								
Property taxes					7,283,611	-	7,283,611	52,584
State shared revenue					846,257	-	846,257	-
Investment earnings					18,872	8,446	27,318	367
Change in equity interest in joint venture					-	345,775	345,775	-
Miscellaneous					166,022	45,819	211,841	30,742
Transfers					341,335	(341,335)	-0-	-
Total general revenues and transfers					8,656,097	58,705	8,714,802	83,693
Change in net position					1,454,295	918,208	2,372,503	(127,483)
Restated net position, beginning of year					67,339,219	40,219,389	107,558,608	1,628,478
Net position, end of the year					\$ 68,793,514	\$ 41,137,597	\$ 109,931,111	\$ 1,500,995

See accompanying notes to financial statements.

City of St. Joseph
Governmental Funds
BALANCE SHEET
June 30, 2016

	General	Lighthouse Improvement	Nonmajor Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 2,319,853	\$ 112,700	\$ 6,981,993	\$ 9,414,546
Investments	982,133	-	402,000	1,384,133
Accounts receivable	23,426	7,000	30,447	60,873
Due from other governmental units	29,304	-	130,759	160,063
Due from other funds	-	-	128,623	128,623
Inventory	-	-	65,344	65,344
Prepays	6,493	-	-	6,493
TOTAL ASSETS	\$ 3,361,209	\$ 119,700	\$ 7,739,166	\$ 11,220,075
LIABILITIES				
Accounts payable	\$ 25,113	\$ -	\$ 102,222	\$ 127,335
Accrued liabilities	290,459	-	58,683	349,142
Due to other funds	59,648	101,800	16,384	177,832
Unearned revenue	24,992	-	-	24,992
TOTAL LIABILITIES	400,212	101,800	177,289	679,301
FUND BALANCES				
Nonspendable	6,493	-	562,698	569,191
Restricted	328,415	17,900	6,816,510	7,162,825
Committed	1,000,000	-	182,669	1,182,669
Assigned	104,600	-	-	104,600
Unassigned	1,521,489	-	-	1,521,489
TOTAL FUND BALANCES	2,960,997	17,900	7,561,877	10,540,774
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,361,209	\$ 119,700	\$ 7,739,166	\$ 11,220,075

See accompanying notes to financial statements.

City of St. Joseph

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total fund balances - governmental funds \$ 10,540,774

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 72,521,924	
Accumulated depreciation is	<u>(21,709,850)</u>	
Capital assets, net		50,812,074

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of certain internal service funds are included in the governmental activities in the government-wide statement of net position.

Net position of governmental activities accounted for in governmental activities internal service funds		3,006,542
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension asset or liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	5,584,393	
Deferred inflows of resources related to pensions	<u>(1,178,317)</u>	
		4,406,076

Some assets are not current financial resources and therefore are not reported as assets in the governmental funds. These amounts consist of:

Investment in joint venture	11,247,843	
Net pension liability	<u>(2,794,494)</u>	
		8,453,349

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term liabilities and related deferred charges at year-end consist of:

Bonds payable and installment purchase agreement	(5,946,224)	
Accrued interest payable	(42,738)	
Compensated absences	(301,619)	
Net other post-employment benefits obligation	<u>(2,134,720)</u>	
		<u>(8,425,301)</u>

Net position of governmental activities \$ 68,793,514

See accompanying notes to financial statements.

City of St. Joseph

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

	General	Lighthouse Improvement	Nonmajor Governmental Funds	Total
REVENUES				
Taxes	\$ 5,277,897	\$ -	\$ 2,232,195	\$ 7,510,092
Intergovernmental	942,473	-	1,803,226	2,745,699
Licenses and permits	513,886	-	-	513,886
Charges for services	1,628,642	-	180,261	1,808,903
Fines and forfeits	90,944	-	193,945	284,889
Interest and rents	15,823	-	35,678	51,501
Contributions	2,618	1,122,539	490,973	1,616,130
Other	96,305	-	66,580	162,885
TOTAL REVENUES	8,568,588	1,122,539	5,002,858	14,693,985
EXPENDITURES				
Current				
General government	1,211,283	-	254,150	1,465,433
Public safety	3,744,048	-	5,311	3,749,359
Public works	478,028	-	2,860,168	3,338,196
Health and welfare	48,099	-	-	48,099
Community and economic development	411,597	-	-	411,597
Recreation and culture	953,793	1,660,642	822,075	3,436,510
Other	249,520	-	-	249,520
Debt service				
Principal	114,283	-	601,723	716,006
Interest and fees	38,764	-	166,876	205,640
Capital outlay	-	-	884,814	884,814
TOTAL EXPENDITURES	7,249,415	1,660,642	5,595,117	14,505,174
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,319,173	(538,103)	(592,259)	188,811
OTHER FINANCING SOURCES (USES)				
Transfers in	294	163,000	3,115,312	3,278,606
Transfers out	(1,242,980)	-	(1,693,997)	(2,936,977)
TOTAL OTHER FINANCING SOURCES (USES)	(1,242,686)	163,000	1,421,315	341,629
NET CHANGE IN FUND BALANCES	76,487	(375,103)	829,056	530,440
Restated fund balances, beginning of year	2,884,510	393,003	6,732,821	10,010,334
Fund balances, end of year	\$ 2,960,997	\$ 17,900	\$ 7,561,877	\$ 10,540,774

See accompanying notes to financial statements.

City of St. Joseph

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 530,440

Amounts reported for governmental activities in the statement of activities are different because:

Change in equity interest in the joint venture is not reported in the governmental funds. (412,193)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 3,258,264	
Depreciation expense	<u>(1,949,912)</u>	
Excess of capital outlay over depreciation expense		1,308,352

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain individual funds are included in the governmental activities.

Net income of governmental activities internal service funds 607,357

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing long-term debt increases liabilities in the statement of net position. Items resulting from the repayment of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Premium on bonds	4,919	
Debt principal retirement	<u>716,006</u>	
		720,925

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds. These activities consist of:

(Decrease) in net pension asset	(3,040,033)	
Decrease in accrued interest payable	3,813	
(Increase) in accrued compensated absences	(42,968)	
Increase in deferred outflows of resources related to pensions	2,276,398	
(Increase) in deferred inflows of resources related to pensions	(365,124)	
(Increase) in other post-employment benefits obligation	<u>(132,672)</u>	
		<u>(1,300,586)</u>

Change in net position of governmental activities \$ 1,454,295

City of St. Joseph

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2016

	Enterprise Funds					Governmental Activities
	Sewer	Water	City Water	Nonmajor (Marina)	Total	Internal Services
ASSETS						
Current assets						
Cash and cash equivalents	\$ 1,399,556	\$ 4,248,531	\$ 1,407,109	\$ 444,213	\$ 7,499,409	\$ 1,736,075
Accounts receivable	620,516	474,363	169,487	1,242	1,265,608	-
Due from other funds	-	-	-	-	-0-	51,609
Inventory	259	108,754	-	13,815	122,828	33,001
Prepays	-	-	-	-	-0-	33,714
Total current assets	2,020,331	4,831,648	1,576,596	459,270	8,887,845	1,854,399
Noncurrent assets						
Investment in joint venture	13,191,982	-	-	-	13,191,982	-
Capital assets not being depreciated	252,766	30,497	827,080	129,789	1,240,132	-
Capital assets, net of accumulated depreciation	3,187,266	15,745,240	7,374,345	2,134,850	28,441,701	1,318,532
Total noncurrent assets	16,632,014	15,775,737	8,201,425	2,264,639	42,873,815	1,318,532
TOTAL ASSETS	18,652,345	20,607,385	9,778,021	2,723,909	51,761,660	3,172,931
LIABILITIES						
Current liabilities						
Accounts payable	411,794	82,759	-	6,109	500,662	153,802
Accrued wages	2,751	59,291	-	10,659	72,701	6,627
Other accrued liabilities	-	5,900	-	88	5,988	-
Accrued interest payable	-	40,350	14,660	-	55,010	-
Due to other governmental units	260,085	39,133	-	-	299,218	-
Due to other funds	-	2,400	-	-	2,400	-
Current portion of compensated absences	2,021	62,356	-	12,432	76,809	5,960
Current portion of long-term debt	30,000	385,000	140,000	13,889	568,889	-
Total current liabilities	706,651	677,189	154,660	43,177	1,581,677	166,389
Noncurrent liabilities						
Noncurrent portion of compensated absences	-	22,173	-	-	22,173	-
Noncurrent portion of long-term debt	529,702	6,229,460	2,205,496	55,555	9,020,213	-
Total noncurrent liabilities	529,702	6,251,633	2,205,496	55,555	9,042,386	-0-
TOTAL LIABILITIES	1,236,353	6,928,822	2,360,156	98,732	10,624,063	166,389
NET POSITION						
Net investment in capital assets	2,880,330	9,161,277	5,855,929	2,195,195	20,092,731	-
Unrestricted	14,535,662	4,517,286	1,561,936	429,982	21,044,866	3,006,542
TOTAL NET POSITION	\$ 17,415,992	\$ 13,678,563	\$ 7,417,865	\$ 2,625,177	\$ 41,137,597	\$ 3,006,542

See accompanying notes to financial statements.

City of St. Joseph

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2016

	Enterprise Funds				Total	Governmental
	Sewer	Water	City Water	Nonmajor (Marina)		Internal Services
OPERATING REVENUES						
Charges for services	\$ 1,623,141	\$ 4,625,672	\$ 682,022	\$ 628,017	\$ 7,558,852	\$ 1,268,910
Fines and forfeitures	56,071	-	-	-	56,071	-
Rent	-	-	-	-	-0-	864,714
Other	1,259	44,544	-	16	45,819	2,133,129
TOTAL OPERATING REVENUES	1,680,471	4,670,216	682,022	628,033	7,660,742	4,266,753
OPERATING EXPENSES						
Salaries and wages	33,714	1,023,851	-	107,769	1,165,334	817,332
Fringe benefits	11,631	505,318	-	45,770	562,719	1,956,134
Contractual services	291,429	802,587	105,495	32,392	1,231,903	166,018
Supplies	10,244	543,887	-	214,553	768,684	204,538
Utilities	796,322	270,034	-	19,570	1,085,926	-
Insurance	21,743	67,645	-	9,664	99,052	199,302
Communications	3,158	18,115	-	5,449	26,722	-
Transportation	121	8,056	-	1,339	9,516	826
Printing and publishing	264	15,373	-	-	15,637	-
Repairs	46,824	238,196	3,718	14,526	303,264	73,938
Building and equipment rental	21,250	180,411	-	-	201,661	-
Other	8,133	27,652	-	12,489	48,274	4,033
Depreciation	68,268	697,459	206,309	67,826	1,039,862	237,876
TOTAL OPERATING EXPENSES	1,313,101	4,398,584	315,522	531,347	6,558,554	3,659,997
OPERATING INCOME	367,370	271,632	366,500	96,686	1,102,188	606,756
NONOPERATING REVENUES (EXPENSES)						
Intergovernmental	46,307	-	-	-	46,307	-
Interest income	1,098	5,731	1,345	272	8,446	895
Interest expense and fees	(13,599)	(168,312)	(61,262)	-	(243,173)	-
Change in equity interest in joint venture	345,775	-	-	-	345,775	-
TOTAL NONOPERATING REVENUES (EXPENSES)	379,581	(162,581)	(59,917)	272	157,355	895
INCOME BEFORE TRANSFERS	746,951	109,051	306,583	96,958	1,259,543	607,651
TRANSFERS						
Transfers in	126,827	-	209,238	-	336,065	-
Transfers out	(388,600)	-	(288,800)	-	(677,400)	(294)
CHANGE IN NET POSITION	485,178	109,051	227,021	96,958	918,208	607,357
Net position, beginning of year	16,930,814	13,569,512	7,190,844	2,528,219	40,219,389	2,399,185
Net position, end of year	<u>\$ 17,415,992</u>	<u>\$ 13,678,563</u>	<u>\$ 7,417,865</u>	<u>\$ 2,625,177</u>	<u>\$ 41,137,597</u>	<u>\$ 3,006,542</u>

See accompanying notes to financial statements.

City of St. Joseph

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

	Enterprise Funds				Total	Governmental
	Sewer	Water	City Water	Nonmajor (Marina)		Internal Services
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash receipts from customers	\$ 1,734,927	\$ 4,644,956	\$ 682,077	\$ 626,811	\$ 7,688,771	\$ 4,294,336
Cash paid to suppliers	(1,401,938)	(2,204,807)	(109,213)	(387,217)	(4,103,175)	(2,491,020)
Cash paid to employees	(30,997)	(1,514,811)	-	(94,657)	(1,640,465)	(846,682)
NET CASH PROVIDED BY OPERATING ACTIVITIES	301,992	925,338	572,864	144,937	1,945,131	956,634
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Receipt/payment of interfund balances	-	2,700	-	-	2,700	(3,693)
Transfers in	126,827	-	209,238	-	336,065	-
Transfers out	(388,600)	-	(288,800)	-	(677,400)	(294)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(261,773)	2,700	(79,562)	-0-	(338,635)	(3,987)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Intergovernmental receipts/payments	119,873	-	-	-	119,873	-
Purchase of capital assets	(322,742)	(30,497)	(209,238)	(44,542)	(607,019)	(431,291)
Principal paid on debt	(30,000)	(375,000)	(140,000)	(13,889)	(558,889)	-
Interest paid on debt	(13,599)	(170,399)	(62,137)	-	(246,135)	-
Proceeds from sale of assets	-	-	-	-	-0-	13,321
NET CASH (USED) BY CAPITAL RELATED FINANCING ACTIVITIES	(246,468)	(575,896)	(411,375)	(58,431)	(1,292,170)	(417,970)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	1,098	5,731	1,345	272	8,446	895
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(205,151)	357,873	83,272	86,778	322,772	535,572
Cash and cash equivalents, beginning of year	1,604,707	3,890,658	1,323,837	357,435	7,176,637	1,200,503
Cash and cash equivalents, end of year	<u>\$ 1,399,556</u>	<u>\$ 4,248,531</u>	<u>\$ 1,407,109</u>	<u>\$ 444,213</u>	<u>\$ 7,499,409</u>	<u>\$ 1,736,075</u>

See accompanying notes to financial statements.

City of St. Joseph

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2016

	Enterprise Funds					Governmental Activities
	Sewer	Water	City Water	Nonmajor	Total	Internal Services
Reconciliation of operating income to net cash provided by operating activities						
Operating income	\$ 367,370	\$ 271,632	\$ 366,500	\$ 96,686	\$ 1,102,188	\$ 606,756
Adjustments to reconcile operating income to net cash provided by operating activities						
Depreciation	68,268	697,459	206,309	67,826	1,039,862	237,876
(Increase) decrease in:						
Accounts receivable	54,956	(25,260)	55	(1,222)	28,529	-
Due from other funds	-	-	-	-	-0-	27,583
Inventory	(259)	(15,423)	-	38,816	23,134	5,453
Prepays	-	-	-	-	-0-	1,772
Increase (decrease) in:						
Accounts payable	(190,560)	(17,769)	-	(70,090)	(278,419)	151,875
Accrued wages	696	11,231	-	2,764	14,691	(35,310)
Other accrued liabilities	-	341	-	(191)	150	(45,331)
Unearned revenue	(500)	-	-	-	(500)	-
Compensated absences	2,021	3,127	-	10,348	15,496	5,960
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 301,992	 \$ 925,338	 \$ 572,864	 \$ 144,937	 \$ 1,945,131	 \$ 956,634

NOTE: The City adjusted its equity interest in the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant by \$345,775 in the current year to reflect the change in its investment in the joint venture.

City of St. Joseph

Fiduciary Funds

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Pension Benefits Trust</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 474,604	\$ 21,962
Interest and dividends receivable	8,752	-
Investments		
Fixed income	24,856,324	-
Equities	35,002,177	-
Other	<u>500,007</u>	<u>-</u>
 TOTAL ASSETS	 60,841,864	 <u>\$ 21,962</u>
 LIABILITIES		
Due to others	<u>-</u>	<u>\$ 21,962</u>
 NET POSITION		
Held in trust for pension benefits	<u>\$ 60,841,864</u>	

City of St. Joseph

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2016

	<u>Pension Benefits Trust</u>
ADDITIONS	
Investment income (loss)	
Change in fair value of investments	\$ (1,786,507)
Interest	764
Dividends	<u>1,445,774</u>
Total investment income (loss)	(339,969)
Less: investment expense	<u>(201,530)</u>
Net investment income (loss)	(541,499)
Contributions	
Employers	1,053,862
Employee	<u>303,156</u>
Total contributions	1,357,018
Other additions	<u>12,383</u>
TOTAL ADDITIONS	827,902
DEDUCTIONS	
Benefits	3,225,784
Refunds of contributions	36,953
Administrative expenses	69,384
Other	<u>10,634</u>
TOTAL DEDUCTIONS	<u>3,342,755</u>
NET CHANGE IN NET POSITION	(2,514,853)
Net position, beginning of year	<u>63,356,717</u>
Net position, end of year	<u><u>\$ 60,841,864</u></u>

See accompanying notes to financial statements.

City of St. Joseph

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2016

	Downtown Development Authority	Housing Commission	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 35,915	\$ 465,381	\$ 501,296
Receivables	-	46	46
Due from other governmental units	431	-	431
Inventory	-	5,760	5,760
Prepays	-	27,416	27,416
Total current assets	36,346	498,603	534,949
Noncurrent assets			
Capital assets not being depreciated	-	31,764	31,764
Capital assets being depreciated, net	-	1,123,367	1,123,367
Net pension asset	-	7,033	7,033
Total noncurrent assets	-0-	1,162,164	1,162,164
TOTAL ASSETS	36,346	1,660,767	1,697,113
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	-	90,381	90,381
LIABILITIES			
Current liabilities			
Accounts payable	-	52,861	52,861
Accrued liabilities	603	12,637	13,240
Due to other governmental units	1,804	-	1,804
Tenant security deposit liability	-	30,513	30,513
Unearned revenue	-	6,680	6,680
Compensated absences	-	4,895	4,895
Current portion of long-term debt	-	14,776	14,776
Total current liabilities	2,407	122,362	124,769
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	142,210	142,210
Total noncurrent liabilities	-0-	142,210	142,210
TOTAL LIABILITIES	2,407	264,572	266,979
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	-	19,520	19,520
NET POSITION			
Net investment in capital assets	-	998,145	998,145
Unrestricted	33,939	468,911	502,850
TOTAL NET POSITION	\$ 33,939	\$ 1,467,056	\$ 1,500,995

See accompanying notes to financial statements.

City of St. Joseph

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Housing Commission	Total
Governmental Activities							
Downtown Development Authority	\$ 88,143	\$ -	\$ -	\$ 5,000	\$ (83,143)	\$ -	\$ (83,143)
Business-type Activities							
Housing Commission	733,611	406,499	187,715	11,364	-	(128,033)	(128,033)
Total component units	<u>\$ 821,754</u>	<u>\$ 406,499</u>	<u>\$ 187,715</u>	<u>\$ 16,364</u>	(83,143)	(128,033)	(211,176)
General revenues							
Property taxes					52,584	-	52,584
Investment earnings					41	326	367
Miscellaneous					-	30,742	30,742
Total general revenues					<u>52,625</u>	<u>31,068</u>	<u>83,693</u>
Change in net position					(30,518)	(96,965)	(127,483)
Restated net position, beginning of year					<u>64,457</u>	<u>1,564,021</u>	<u>1,628,478</u>
Net position, end of the year					<u>\$ 33,939</u>	<u>\$ 1,467,056</u>	<u>\$ 1,500,995</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of St. Joseph (the City), operates with a City Manager/Commission form of government and provides services to its residents in many areas including general government, public safety, water and sewer services, highways and streets, rubbish and trash disposal, planning and zoning, public improvements, culture, recreation, and general administrative services.

The City has elected a City Commission, which consists of the Mayor, Mayor pro tem, and three (3) Commissioners, with oversight of daily activities provided by the City Manager.

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City of St. Joseph (primary government), and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

The component units described below should be included in the City's reporting entity because of the significance of its operational or financial relationship with the City. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (DDA) was established to work in cooperation with the City Commission to correct and prevent deterioration of the downtown district of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, and to strengthen existing areas and encourage new private development within the downtown district. The DDA's governing body consists of nine (9) individuals, who are appointed by the City Commission. Additionally, the DDA's budget is subject to approval by the City Commission. The DDA does not issue separate financial statements.

City of St. Joseph Housing Commission - The Housing Commission is a nonprofit corporation that was organized under the laws of the State of Michigan. This component unit provides low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The fiscal year for the Housing Commission ends March 31. The Housing Commission is considered a component unit due to the City's ability to impose its will by removing an appointed member. A complete financial statement for the City of St. Joseph Housing Commission can be obtained at 601 Port Street, St. Joseph, Michigan 49085.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Joint Ventures

The City participates in the following activities, which are considered joint ventures, with neighboring municipalities.

Southwest Michigan Regional Airport Authority - The City is a member of the Southwest Michigan Regional Airport Authority, which is a joint venture between four municipalities, including the City of St. Joseph, and was established to oversee the airport operations for these municipalities. The City provides 37.21 percent of the total funding to the Authority. The City of St. Joseph's equity interest for the year ended June 30, 2016, was \$11,247,843. Separate audited financial statements for their year ended June 30, 2016, can be obtained from the Southwest Michigan Regional Airport Authority upon request.

Benton Harbor - St. Joseph Wastewater Treatment Plant - The City is a member of the Benton Harbor - St. Joseph Wastewater Treatment Plant, which is a joint venture between the City of Benton Harbor and the City of St. Joseph, and was established to provide sanitary sewage treatment and collection services for the residents of both Cities. The City's equity interest in the amount of \$13,191,982 is recorded in the Sewer Fund and in the business-type activities in the government-wide financial statements. A copy of the most recently available separately audited financial statements, for their year ended June 30, 2015, are available at the Plant's administrative offices.

4. Jointly Governed Organizations

Community Emergency Services, Inc., operating as Medic 1 Ambulance (nonprofit) - This potential component unit is disclosed as a jointly governed organization because it is jointly governed by various municipal governments, including the City of St. Joseph, but the City does not have an ongoing financial interest or ongoing financial responsibility. The City is entitled to the rights and privileges of one voting board member. Medic 1 is organized for the purpose of providing emergency ambulance service to surrounding communities. The City's contribution for the year ended June 30, 2016, was \$48,099.

5. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the City as a whole. All non-fiduciary activities of the City are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the City and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Presentation - Continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Lighthouse Improvement Fund is a capital projects fund used to account for restricted financial resources (i.e., intergovernmental and contributions) that are used toward improvements on the lighthouse.

The City reports the following major enterprise funds:

- a. The Sewer Fund is used to account for the activities related to the maintenance of the sanitary system and pays for the treatment of wastewater. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- b. The Water Fund is used to account for the activities related to water production, treatment, distribution, and billing. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- c. The City Water Fund is used to account for the activities related to non-system wide water and system maintenance. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

Additionally, the City reports internal service funds, which are used to account for self-insurance, fleet maintenance, employee health care, and public works services provided to other departments on a cost reimbursement basis.

The City reports a trust fund to account for the St. Joseph Employees' Retirement System, which accumulates resources for pension benefit payments to qualified employees of the City of St. Joseph, the City of St. Joseph Housing Commission, and the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant.

The City also reports an agency fund to account for assets held by the City in a trustee capacity. Agency funds are custodial in nature and do not involve the measurement of results of operations.

6. Measurement Focus

The government-wide, proprietary, and non-agency fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Measurement Focus

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for agency funds since assets equal liabilities.

7. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is sixty (60) days. Revenues that are considered measurable but not available are recorded as a receivable and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

8. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information was prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a. The fiscal year will begin on July 1 and end on June 30 of each year.
- b. At an April Commission meeting, the City Manager will submit a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and resources to finance them.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Budgets and Budgetary Accounting - continued

- c. A Public Hearing is conducted prior to the adoption of the budget to obtain taxpayers' comments.
- d. Prior to June 30, the budget is legally enacted through passage of a resolution by the City Commission.
- e. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.

9. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of all checking and savings accounts and certificates of deposit or short-term investments with an original maturity of three (3) months or less. The cash equivalents are recorded at cost, which approximates fair value.

Investments consist of pension fund securities, mutual funds, and certificates of deposit with an original maturity of more than three (3) months. Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, as applicable.

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and receivables for charges for services provided to local governmental units.

11. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end. No allowances have been made for uncollectible amounts.

12. Property Tax

City property taxes are assessed as of December 31 and attached as an enforceable lien on property as of July 1 of the following year. The taxes are due without penalty on or before September 15. Real property taxes not collected as of March 1 are turned over to Berrien County for collection. The County advances the City 100% of the delinquent taxes on real property. The City has delegated the collection of personal property taxes to the County Treasurer. The City recognizes property taxes as revenue when they are levied on July 1 because at that point the taxes are both measurable and available.

The City is permitted to levy up to 20 mills (\$20 per \$1,000 of taxable valuation), reduced by Headlee to 15.6181 mills, for general governmental services other than the payment of principal and interest on long-term debt. They are also permitted to levy additional mills specifically designated for library, band, rubbish, airport, and debt service. For the year ended June 30, 2016, the City levied 11.5000 mills for general governmental services, 1.0000 for streets, 0.6800 mills for library services, 0.2500 mills for the municipal band, 1.8115 mills for rubbish collection, 0.2444 mills for airport services, and 1.3129 mills for debt service. The total taxable value for the 2015 levy for the property within the City was \$447,542,250.

13. Inventories

Inventories are valued at a first-in, first-out cost basis. Inventories of governmental funds are reported as expenditures when consumed rather than when purchased.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance, which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

15. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities, business-type activities, and component units columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than five (5) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Equipment	5-50 years
Vehicles	5-30 years
Utility systems	10-60 years
Infrastructure	25-60 years
Library books	5-10 years

16. Unearned Revenue

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

The Statement of Net Position reports unearned revenue for resources that have been received, but not yet earned.

17. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position and balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports items in both categories, deferred outflows and inflows of resources, which correspond to the City's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, changes in proportion and differences between employer contributions and share of contributions. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Compensated Absences

Amounts of vested or accumulated vacation leave and compensated time are accrued in the government-wide and proprietary fund financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "termination leave" prior to retirement. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

19. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent. 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. Issuance costs, whether or not withheld from debt proceeds received, are reported as expenses.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. 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.

20. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The General Fund records charges for services for centralized services provided to various City departments and funds as charges for services. All City funds record these payments as operating expenses/expenditures.

The Internal Service Funds record charges for insurance and employee benefits services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses. The net revenues or losses of the Internal Service Funds, as well as the net position are included in the reconciliation to the government-wide financial statements.

21. Restricted Net Position

Restrictions of net position shown in the government-wide financial statements indicate restrictions that have been imposed by outside sources which preclude a portion of net position from their use for unrestricted purposes.

22. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: DEPOSITS AND INVESTMENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City of St. Joseph Employees' Retirement System (the System) is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

CITY AND COMPONENT UNITS (EXCEPT EMPLOYEES' RETIREMENT SYSTEM)

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2016, the carrying amount of the City's deposits was \$19,072,342 and the bank balance was \$19,613,892. Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2016, \$750,000 of the City accounts were federally insured while \$18,863,892 was uninsured.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The carrying amount of the component units' deposits was \$501,296 and the bank balance was \$501,296. A portion of the component units' cash is held by the City as a part of pooled cash. As a result, the insured and uninsured amounts cannot be determined.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2016, the City did not have any investments that would be subject to rating.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

CITY AND COMPONENT UNITS (EXCEPT EMPLOYEES' RETIREMENT SYSTEM) - CONTINUED

Interest Rate Risk

The City has adopted a policy that indicates the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective to attain a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and cash flow characteristics of the portfolio.

Concentration of Credit Risk

The City has adopted a policy that will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying its investments by maturity dates, individual financial institution, or a specific class of security to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial Credit Risk

The City has adopted a policy that indicates the City will minimize custodial credit risk, which 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 that are in possession of an outside party, by annually requiring an examination of investments and the investment policy and requiring authorized investment officials to follow the "prudent person" standard.

Fair Value of Investments

The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury securities of \$327,133 are valued using quoted market prices (Level 1 inputs).
- Corporate bonds of \$655,000 are valued using quoted prices for similar bonds in active markets (Level 2 inputs).

EMPLOYEES' RETIREMENT SYSTEM

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System's banking and investment policy does not specifically address this risk, although management believes that due to the dollar amounts of cash deposits and the limits of insurance provided through the Federal Deposit Insurance Corporation (FDIC), it is impractical to insure all bank deposits. As a result, management evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level risk level are used as depositories. As of June 30, 2016, the carrying amount of the System's deposits was \$474,604 and the bank balance was \$474,604; however, as the System's checking account is held by the City at financial institutions that hold other City funds, the federally insured amount is undeterminable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

EMPLOYEES' RETIREMENT SYSTEM - CONTINUED

Investments

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Employees' Retirement Board shall be the trustees of the assets of the retirement system and shall have full power to invest and reinvest such assets in accordance with provisions of Act 314 of the Public Acts of 1965, as amended. The Employees' Retirement Board may employ investment counseling services and other services as it shall determine to be necessary in the proper operation of the retirement system. The compensation for such services shall be subject to the approval of the City Manager and the City Commission. All investment decisions are subject to Michigan law and the investment policy established by Commission.

It is the responsibility of the City of St. Joseph Employees' Retirement System to recommend to the City Commission the investment policies and strategies, and retaining/monitoring the investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System. The Retirement System determines the allocation of assets in accordance with allowable legal limits and the investment policy. In setting asset allocation policy, the System reviews the expected returns of various asset classes, the System's actuarial assumption rate, and the risks associated with alternative asset mix strategies. The System has established the following asset allocation as of June 30, 2016:

<u>Asset Class</u>	<u>Neutral</u>	<u>Range</u>
Equities	60%	50%-70%
Fixed Income	40%	30%-50%
Cash	0%	0%-5%

As of June 30, 2016, the System's equity holdings accounted for 58%, of the total investment portfolio; the System's holdings in fixed incomes were 41% at June 30, 2016.

At June 30, 2016, the System had the following recurring fair value measurements.

<u>Investment type</u>	<u>Fair Value</u>	<u>Fair Value Measurement</u>			<u>Weighted Average Maturity</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
U.S. government bonds	\$ 7	\$ 7	\$ -	\$ -	5.30 years
Corporate bonds mutual funds	24,856,324	-	24,856,324	-	N/A
Equity mutual funds	35,002,177	35,002,177	-	-	N/A
Money market trust fund	500,000	500,000	-	-	< 1 year
	<u>\$ 60,358,508</u>	<u>\$ 35,502,184</u>	<u>\$ 24,856,324</u>	<u>\$ -0-</u>	

U.S. government bonds, equity mutual funds, and money market trust fund classified in Level 1 are valued using prices quoted in active markets for those securities.

Corporate bonds mutual funds classified in Level 2 are valued using the quoted prices for similar bonds in active markets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

EMPLOYEES' RETIREMENT SYSTEM - CONTINUED

Credit Risk

The System's investment policy provides that its investments must maintain a dollar-weighted average credit rating of A1/A+ or better by Moody's and Standard & Poor's rating services, respectively. In addition, the minimum acceptable credit quality rating for a particular bond shall be investment grade (Baa/BBB, respectively). As of June 30, 2016, rating information on the System's investments is presented below.

<u>S&P Rating</u>	<u>U.S. Government Bonds</u>	<u>Corporate Bonds Mutual Funds</u>	<u>Equity Mutual Funds</u>	<u>Money Market Trust Fund</u>
AAA	100.00%	30.72%	-	-
AA	-	4.31	-	-
A	-	11.02	-	-
BBB	-	16.18	-	-
BB	-	17.03	-	-
B	-	13.54	-	-
Below B	-	4.47	-	-
Not rated	-	2.73	100.00	100.00

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy does not address custodial credit risk. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name. Short-term investments in money market funds and investments in mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk

The System's investment policy requires that investment in a single issuer shall not exceed 5% of the total fair value of the fund. At June 30, 2016, the System's investments were within that range.

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (.98) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

EMPLOYEES' RETIREMENT SYSTEM - CONTINUED

Interest Rate Risk

For investments, the risk that changes in interest rates will adversely affect the fair value of the investment is known as interest rate risk. The System's investment policy does not address interest rate risk.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The cash and cash equivalents captions on the financial statements include \$1,650 in petty cash. The following summarizes the categorization of these amounts as of June 30, 2016:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 18,650,030	\$ 496,566	\$ 501,296	\$ 19,647,892
Investments	<u>1,384,133</u>	<u>60,358,508</u>	<u>-</u>	<u>61,742,641</u>
	<u>\$ 20,034,163</u>	<u>\$ 60,855,074</u>	<u>\$ 501,296</u>	<u>\$ 81,390,533</u>

NOTE C: INTERFUND PAYABLES AND RECEIVABLES

The amount of interfund receivables and payables at June 30, 2016, are as follows:

Due to nonmajor governmental funds from:		
General Fund		\$ 14,155
Lighthouse Improvement Fund		101,800
Nonmajor governmental funds		<u>12,668</u>
		<u>\$ 128,623</u>
Due to internal service funds from:		
General Fund		\$ 45,493
Water Fund		2,400
Nonmajor governmental funds		<u>3,716</u>
		<u>\$ 51,609</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not yet cleared as of the balance sheet date.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and enterprise funds have been eliminated.

Transfers to General Fund from:		
Internal service funds		\$ 294
Transfers to Lighthouse Improvement Fund from:		
General Fund		\$ 25,000
Nonmajor governmental funds		138,000
		<u>\$ 163,000</u>
Transfer to nonmajor governmental funds from:		
General Fund		\$ 1,217,980
Sewer Fund		388,600
City Water Fund		288,800
Nonmajor governmental funds		1,219,932
		<u>\$ 3,115,312</u>
Transfers to Sewer Fund from:		
Nonmajor governmental funds		\$ 126,827
Transfers to City Water Fund from:		
Nonmajor governmental funds		<u>\$ 209,238</u>

Transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, 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 use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E: CAPITAL ASSETS

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

Primary Government

	Balance July 1, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 11,902,407	\$ -	\$ -	\$ 11,902,407
Historical art	22,000	-	-	22,000
Construction in progress	87,710	1,794,021	(87,710)	1,794,021
Capital assets not being depreciated	12,012,117	1,794,021	(87,710)	13,718,428

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2016
Governmental Activities - continued				
Capital assets being depreciated				
Buildings and improvements	\$ 24,795,745	\$ 191,364	\$ -	\$ 24,987,109
Infrastructure	23,982,229	1,219,413	-	25,201,642
Books	708,899	-	-	708,899
Furniture	5,611,189	386,825	(6,296)	5,991,718
Land improvements	3,886,775	-	-	3,886,775
Vehicles	1,981,136	185,642	(94,352)	2,072,426
Subtotal	60,965,973	1,983,244	(100,648)	62,848,569
Less accumulated depreciation for:				
Buildings and improvements	(5,760,822)	(560,756)	-	(6,321,578)
Infrastructure	(10,603,970)	(606,544)	-	(11,210,514)
Books	(674,253)	(17,652)	-	(691,905)
Furniture and equipment	(3,274,730)	(257,129)	6,296	(3,525,563)
Land improvements	(828,417)	(585,736)	-	(1,414,153)
Vehicles	(1,193,738)	(159,971)	81,031	(1,272,678)
Subtotal	(22,335,930)	(2,187,788)	87,327	(24,436,391)
Net capital assets being depreciated	38,630,043	(204,544)	(13,321)	38,412,178
Capital assets, net	<u>\$ 50,642,160</u>	<u>\$ 1,589,477</u>	<u>\$ (101,031)</u>	<u>\$ 52,130,606</u>

The current period depreciation expense of \$2,187,788 has been adjusted by \$13,321 for the loss on disposal of capital assets during the period, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense was charged to the following governmental activities:

General government	\$ 245,855
Public safety	159,910
Public works	208,124
Public works - infrastructure	606,544
Recreation and culture	980,676
	<u>\$ 2,201,109</u>

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2016
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 956,870	\$ -	\$ -	\$ 956,870
Construction in progress	245,303	121,113	(83,154)	283,262
Capital assets not being depreciated	1,202,173	121,113	(83,154)	1,240,132
Capital assets being depreciated				
Buildings and improvements	18,590,997	5,658	-	18,596,655
Infrastructure	1,699,797	8,050	-	1,707,847
Furniture and equipment	1,031,189	8,619	-	1,039,808
Utility systems	20,543,085	524,518	-	21,067,603
Vehicles	-	22,215	-	22,215
Subtotal	41,865,068	569,060	-0-	42,434,128
Less accumulated depreciation for:				
Buildings and improvements	(7,803,895)	(520,795)	-	(8,324,690)
Infrastructure	(1,041,390)	(17,588)	-	(1,058,978)
Furniture and equipment	(536,839)	(46,825)	-	(583,664)
Utility systems	(3,570,441)	(450,211)	-	(4,020,652)
Vehicles	-	(4,443)	-	(4,443)
Subtotal	(12,952,565)	(1,039,862)	-0-	(13,992,427)
Net capital assets being depreciated	28,912,503	(470,802)	-0-	28,441,701
Capital assets, net	<u>\$ 30,114,676</u>	<u>\$ (349,689)</u>	<u>\$ (83,154)</u>	<u>\$ 29,681,833</u>

Depreciation expense was charged to the following business-type activities:

Sewer System	\$ 68,268
Water System	697,459
City Water	206,309
Marina	67,826
	<u>\$ 1,039,862</u>

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E: CAPITAL ASSETS - CONTINUED

Component Unit

	Balance April 1, 2015	Additions	Deletions	Balance March 31, 2016
Housing Commission				
Capital assets not being depreciated				
Land	\$ 19,800	\$ -	\$ -	\$ 19,800
Construction in progress	-	11,964	-	11,964
Total capital assets not being depreciated	19,800	11,964	-0-	31,764
Capital assets being depreciated				
Buildings and improvements	4,477,774	-	-	4,477,774
Furniture and equipment - dwelling	33,900	-	-	33,900
Furniture and equipment - administration	100,578	-	(1,343)	99,235
Subtotal	4,612,252	-0-	(1,343)	4,610,909
Less accumulated depreciation for:	(3,345,133)	(143,484)	1,075	(3,487,542)
Net capital assets being depreciated	1,267,119	(143,484)	(268)	1,123,367
Capital assets, net	<u>\$ 1,286,919</u>	<u>\$ (131,520)</u>	<u>\$ (268)</u>	<u>\$ 1,155,131</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2016:

Primary Government

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Governmental activities					
2003 State revolving fund bonds	\$ 847,410	\$ -	\$ (95,000)	\$ 752,410	\$ 95,000
2004 State revolving fund bonds	1,196,902	-	(110,000)	1,086,902	110,000
Berrien County revolving loan	125,000	-	(25,000)	100,000	25,000
2008 Bluffside installment loan	902,556	-	(89,283)	813,273	93,734
2011 Refunding bonds	3,100,000	-	(175,000)	2,925,000	185,000
2014 Fire truck installment loan	446,092	-	(221,723)	224,369	224,369
Compensated absences	258,651	316,259	(267,331)	307,579	307,579
Subtotal	6,876,611	316,259	(983,337)	6,209,533	1,040,682
Bond premium	49,189	-	(4,919)	44,270	4,919
Total governmental activities	6,925,800	316,259	(988,256)	6,253,803	1,045,601

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT - CONTINUED

Primary Government

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Business-type activities					
2008 Capital improvement bonds	\$ 2,485,496	\$ -	\$ (140,000)	\$ 2,345,496	\$ 140,000
2009 Clean water bonds	181,000	-	(10,000)	171,000	10,000
2009 Clean water bonds	5,249,460	-	(250,000)	4,999,460	260,000
2010 Clean water bonds	1,140,000	-	(55,000)	1,085,000	55,000
2010 Marina installment loan	83,333	-	(13,889)	69,444	13,889
2012 Clean water bonds	180,000	-	(10,000)	170,000	10,000
2012 General obligation tax bonds	600,000	-	(70,000)	530,000	70,000
2013 Clean water bonds	228,702	-	(10,000)	218,702	10,000
Compensated absences	83,486	81,898	(66,402)	98,982	76,809
Total business-type activities	10,231,477	81,898	(625,291)	9,688,084	645,698
Total primary government	<u>\$ 17,157,277</u>	<u>\$ 398,157</u>	<u>\$ (1,613,547)</u>	<u>\$ 15,941,887</u>	<u>\$ 1,691,299</u>

Component Unit

	Balance April 1, 2015	Additions	Deletions	Balance March 31, 2016	Amounts Due Within One Year
Housing Commission					
2013 Energy Services Note	\$ 171,725	\$ -	\$ (14,739)	\$ 156,986	\$ 14,776
Compensated absences	8,592	8,926	(12,623)	4,895	4,895
Total component unit	<u>\$ 180,317</u>	<u>\$ 8,926</u>	<u>\$ (27,362)</u>	<u>\$ 161,881</u>	<u>\$ 19,671</u>

The Berrien County revolving loan, Bluffsides installment loan, and compensated absences liabilities are normally liquidated by the General Fund. The fire truck installment loan is liquidated by the Capital Improvement Fund.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Governmental Activities

\$1,846,525 2003 State Revolving Fund Bonds, dated September 26, 2002, due in annual installments ranging from \$87,410 to \$95,000 through October 1, 2023, with interest of 2.50 percent payable semi-annually.	\$ 752,410
\$2,015,205 2004 State Revolving Fund Bonds, dated March 25, 2004, due in annual installments ranging from \$110,000 to \$130,000 through April 1, 2025, with interest of 2.125 percent, payable semi-annually.	1,086,902
\$250,000 Installment Loan from Berrien County Revolving Loan Fund, dated January 9, 2001, due in an annual installment of \$25,000 through January 1, 2020, with no interest.	100,000

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT - CONTINUED

Governmental Activities - continued

\$1,400,000 Bluffside Installment Loan, dated August 8, 2008, due in semi-annual installments ranging from \$46,363 to \$63,946 through August 8, 2023, with interest of 4.35 percent payable semi-annually.	\$ 813,273
\$3,575,000 2011 Refunding Bonds, dated November 22, 2011, due in annual installments ranging from \$185,000 to \$355,000 through May 1, 2027, with interest ranging from 3.000 to 4.125 percent payable semi-annually.	2,925,000
\$665,200 Installment Purchase Agreement for a Fire Truck, dated October 1, 2014, due in semi-annual installments ranging from \$111,852 to \$112,517 through May 1, 2017, with interest of 1.19 percent payable semi-annually.	224,369
	\$ 5,901,954

Business-type Activities

\$3,135,496 2008 Capital Improvement Bonds dated September 29, 2008, due in installments ranging from \$140,000 to \$195,496 annually through April 1, 2030, with interest of 2.50 percent payable semi-annually.	\$ 2,345,496
\$231,000 2009 Clean Water Bonds dated September 21, 2009, due in installments ranging from \$10,000 to \$15,000 annually through April 1, 2030, with interest of 2.50 percent payable semi-annually.	171,000
\$5,972,460 2009 Clean Water Bonds dated September 21, 2009, due in installments ranging from \$260,000 to \$374,460 annually through October 1, 2031, with interest of 2.50 percent payable semi-annually.	4,999,460
\$1,293,000 2010 Clean Water Bonds dated January 22, 2010, due in installments ranging from \$55,000 to \$85,000 annually through October 1, 2031, with interest of 2.50 percent payable semi-annually.	1,085,000
\$125,000 Marina Installment Loan for Land acquired from Whirlpool Corporation, dated March 22, 2010, due in annual installments of \$13,889 through December 31, 2020, with no interest.	69,444
\$210,000 2012 Clean Water Bonds dated April 10, 2012, due in installments ranging from \$10,000 to \$15,000 annually through April 1, 2032, with interest of 2.50 percent payable semi-annually.	170,000

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT - CONTINUED

Business-type Activities - continued

\$730,000 2012 General Obligation Limited Tax Bonds dated August 28, 2012, due in installments ranging from \$70,000 to \$80,000 annually through November 1, 2022, with interest rates from 1.75 to 3.35 percent payable semi-annually. \$ 530,000

\$248,702 2013 Clean Water Bonds dated June 25, 2013, due in installments ranging from \$10,000 to \$18,702 annually through April 1, 2033, with interest of 2.00 percent payable semi-annually. 218,702

\$ 9,589,102

Component Unit - Housing Commission

\$185,479 note payable due in quarterly payments of \$5,200 to \$6,600 through December 1, 2023, with interest of 5.43 percent payable quarterly. \$ 156,986

The annual requirements to pay the debt principal and interest outstanding for bonds and installment purchase agreements are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 733,103	\$ 188,456	\$ 568,889	\$ 233,031	\$ 14,776	\$ 8,224
2018	532,866	172,068	578,889	219,563	16,485	7,715
2019	547,159	156,946	598,889	205,514	17,974	6,826
2020	571,651	140,285	613,889	190,833	19,349	5,851
2021	571,341	122,796	623,888	175,560	20,844	4,356
2022-2026	2,590,834	318,542	3,046,000	642,828	67,558	5,577
2027-2031	355,000	14,644	3,050,496	257,478	-	-
2032-2033	-	-	508,162	7,167	-	-
	<u>\$ 5,901,954</u>	<u>\$ 1,113,737</u>	<u>\$ 9,589,102</u>	<u>\$ 1,931,974</u>	<u>\$ 156,986</u>	<u>\$ 38,549</u>

Compensated Absences

In accordance with the City personnel policies and/or contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused sick leave and vacation under formulas and conditions specified in the respective personnel policies and/or contracts. At June 30, 2016, the dollar amount of these vested rights, including related payroll taxes, amounted to \$307,579 and \$98,982 for sick leave and vacation in government activities and business-type activities, respectively.

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. At June 30, 2016, the dollar amount of these vested rights, including related payroll taxes, amounted to \$4,895.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE G: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy period exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The City has not been informed of any special assessments being required.

The City participates in a State pool through the Michigan Municipal Risk Management Authority, with other municipalities for liability, vehicle damage, fire/EMS replacement cost, property, crime, data breach, and sewer system overflow. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE H: DEFINED BENEFIT PENSION PLAN

Plan Administration

The City of St. Joseph Employees' Retirement System (the System) is a cost-sharing multiple-employer public employee retirement system, which provides pension benefits to substantially all full-time employees of the City of St. Joseph, the City of St. Joseph Housing Commission, and the Benton Harbor-St. Joseph Wastewater Treatment Plant (collectively referred to as the Employers).

The System is administered by the City of St. Joseph Retirement System Board of Trustees (the Board). The Board consists of five (5) individual trustees either elected or appointed in accordance with the Pension Ordinance. Plan benefit provisions were established and may be amended under the authority of Pension Ordinances. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the City of St. Joseph Retirement System Board of Trustees.

The Board of Trustees is made up of the following members:

- One (1) member selected from among the City Commission;
- One (1) member is the City Manager by virtue of his or her position;
- One (1) police or fire member elected by the police and fire members;
- One (1) general member elected by the general membership; and
- One (1) resident, who is not a member, retiree, or beneficiary of the System, appointed by the City Commission.

The term of office of the citizen trustee, police or fire member trustee, and general member trustee, shall be three (3) years, one such term to expire September 30 of each year.

Plan Membership

System membership consisted of the following at June 30, 2015, according to the actuarial valuation as of that date:

Retirees and beneficiaries receiving benefits	135
Terminated plan members entitled to, but not yet receiving benefits	4
Active plan members	<u>106</u>
	<u><u>245</u></u>

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED

Benefits Provided

The System provides retirement, disability, and death benefits to covered and non-covered plan members and their beneficiaries. Plan members are eligible for service-related disability or service-related death benefits regardless of length of service or age. The benefit amounts attribute to regular retirements and the conditions under which such benefits may be paid are described in tabular form below.

	<u>Eligibility</u>	<u>Benefit Multiplier</u>	<u>Years of Service</u>	<u>Years of Final Average Compensation (FAC)</u>	<u>Member Contribution Rate</u>	<u>Covered⁽¹⁾</u>
General	60 and 10 or 30 years	2.25%/0%	40	3	4.00%	Yes
Wastewater	60 and 10 or 30 years	2.25%/0%	40	3	4.00%	Yes
Public Works	60 and 10 or 30 years	2.25%/0%	40	3	3.25%	Yes
Library	60 and 10 or 30 years	2.25%/0%	40	3	4.00%	Yes
Housing	60 and 10 or 30 years	2.25%/0%	40	3	4.00%	Yes
Police	60 and 10 or 30 years	2.50%/0%	28	3	6.50%	No
Police Command	60 and 10 or 50 and 25 years	2.50%/0%	30	3	6.50%	No
Fire	60 and 10 or 50 and 25 or 30 years	2.70%/0%	25	3	8.35%	No

⁽¹⁾ Covered members consist of any member who is covered by the federal social security old-age survivors' and disability insurance program on account of employment with the City. Non-covered members consist of any member who is not covered by the federal social security old-age survivors' and disability insurance program on account of employment with the City.

Deferred retirement

Members are eligible for benefits with 10 years of service. Benefits begin at age 60 for general members, and at age 50 for public safety members with 25 years of service. Retirement benefits are calculated as regular retirement.

Duty disability

No age or service requirement for eligibility. Retirement benefits are calculated as regular retirement. Upon termination of worker's compensation, or age 65, whichever occurs first, additional service credit is granted and benefit is recomputed. Benefit shall not be less than the amount of worker's compensation.

Non-duty disability

Members are eligible for benefits with 10 years of service. Retirement benefits are calculated as regular retirement.

Duty death before retirement

No age or service requirement for eligibility. Upon termination of worker's compensation a benefit equal to the worker's compensation amount shall be paid to the spouse, unmarried children under 18 and dependent parents.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED

Benefits Provided - continued

Non-duty death before retirement

Members are eligible for benefits with 20 years of service or at age 55 with 10 years of service. Retirement benefits are calculated as regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.

Death after retirement

Firefighters are eligible. Spouse must have been married to the firefighter on the retirement date. Retirement benefits are calculated at 55% of the retiring firefighter's pension for the remainder of the spouse's lifetime.

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the System's Board of Trustees retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The actuarially recommended employer contribution rate for the year ended June 30, 2016, was between 11.09 and 28.17 percent of annual payroll.

The City of St. Joseph is required to contribute such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The employers contributed \$1,053,862 for the year ended June 30, 2016.

Net Pension Liability

The components of the net pension liability of the System at June 30, 2016, were as follows:

TOTAL PENSION LIABILITY	
Service cost	\$ 1,123,935
Interest	4,339,603
Differences between expected and actual experience	(1,043,632)
Benefit payments, including refunds of member contributions	<u>(3,262,737)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	1,157,169
TOTAL PENSION LIABILITY, BEGINNING	<u>63,063,728</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 64,220,897</u>

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED

Net Pension Liability

PLAN FIDUCIARY NET POSITION	
Contributions - employer	\$ 1,053,862
Contributions - member	303,156
Net investment income	(541,499)
Benefit payments, including refunds of member contributions	(3,262,737)
Administrative expense	(69,384)
Other	1,749
	<hr/>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(2,514,853)
	<hr/>
PLAN FIDUCIARY NET POSITION, BEGINNING	63,356,717
	<hr/>
PLAN FIDUCIARY NET POSITION, ENDING (B)	\$ 60,841,864
	<hr/>
SYSTEM'S NET PENSION LIABILITY, ENDING (A)-(B)	\$ 3,379,033
	<hr/>
Plan fiduciary net position as a percentage of the total pension liability	94.74%
Covered-employee payroll	\$ 5,751,620
System's net pension liability as a percentage of covered-employee payroll	58.75%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	16 years
Asset valuation method	5-year smoothed market
Inflation	4.00%
Salary increases	4.1% to 8.0% including inflation
Investment rate of return	7.00% (net of investment and administrative expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2010 valuation pursuant to an experience study of the period 2004-2009.
Mortality rates	RP-2000 Male (110%) and Female (unadjusted) Healthy Life Mortality Table

The assumptions used to determine the contribution rates for the fiscal year ended June 30, 2016, were based on valuation assumptions used in the June 30, 2014 actuarial valuation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED

Net Pension Liability - continued

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that 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 these assumptions, the 7 percent 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.

Projected Cash Flows Section

Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. For the purpose of the actuarial valuation, the expected rate of return on pension plan investments is 7.00 percent; the municipal bond rate is 3.80 percent (based on the weekly rate closed to but not later than the measurement date of the "state & local bonds" rate from the Federal Reserve statistical release (H.15)); and the resulting Single Discount Rate is 7.00 percent. The long-term expected rate of return was used during the period in which the fiduciary net position is projected to be sufficient to pay benefits and the municipal bond rate was used to the extent that the contributions for use with the long-term expected rate of return were not met.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the City of St. Joseph's allocated portion of the net pension liability (asset), calculated using the discount rate of 7.00 percent, as well as what the City of St. Joseph's allocated portion of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percent lower (6.00 percent) or 1 percent higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Single Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Total pension liability	\$ 59,331,367	\$ 53,111,324	\$ 47,441,280
Plan fiduciary net position	<u>50,316,830</u>	<u>50,316,830</u>	<u>50,316,830</u>
Net pension liability (asset)	<u>\$ 9,014,537</u>	<u>\$ 2,794,494</u>	<u>\$ (2,875,550)</u>

The total pension liability shown in this report is based on an actuarial valuation performed as of June 30, 2015, and a measurement date of June 30, 2016.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED

Net Pension Liability - continued

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

For the year ended June 30, 2016, the City of St. Joseph recognized pension expense of \$2,000,314. The City of St. Joseph reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,178,317
Changes in assumptions	1,061,419	-
Changes in proportion and differences between employer contributions and share of contributions	27,032	-
Net difference between projected and actual earnings on pension plan investments	<u>4,495,942</u>	<u>-</u>
	<u><u>\$ 5,584,393</u></u>	<u><u>\$ 1,178,317</u></u>

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

Year Ending June 30,	Pension Expense
2017	\$ 1,289,345
2018	1,280,491
2019	1,024,144
2020	812,096

NOTE I: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides certain retiree health care benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. The City has eliminated post-retirement healthcare for all employees except those public safety employees hired on or before June 30, 2012. Current retirees and those public safety employees hired on or before June 30, 2012, may elect to continue the City's health insurance benefit for themselves, their spouse, and dependents. For the year ended June 30, 2016, City expended \$26,670 for 15 participants currently eligible to receive benefits. The City's policy is to finance these benefits on a pay-as-you-go basis.

The plan does not issue a separate stand-alone financial statement.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE I: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Policy

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

Funding Progress

For the year ended June 30, 2016, the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of June 30, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution	\$ 232,273
Interest on net OPEB obligation	70,072
Adjustment to annual required contribution	<u>(143,003)</u>
Annual OPEB cost (expense)	159,342
Contributions made	<u>(26,670)</u>
Increase in net OPEB obligation	132,672
Net OPEB obligation, beginning of year	<u>2,002,048</u>
Net OPEB obligation, end of year	<u><u>\$ 2,134,720</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the years ended June 30, was as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Annual OPEB cost	\$ 124,764	\$ 167,910	\$ 159,342
Percentage contributed	30.3%	118.1%	16.7%
Net OPEB obligation	\$ 2,032,496	\$ 2,002,048	\$ 2,134,720

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE I: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress- continued

The current funding progress of the plan based on the most recent valuation is as follows:

	<u>As of June 30, 2014</u>
Actuarial value of assets	\$ -
Actuarial accrued liability (AAL) (entry age)	2,079,964
Unfunded AAL (UAAL)	2,079,964
Funded ratio	0.0%
Covered payroll	\$ 1,410,914
UAAL as a percentage of covered payroll	147.4%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014, actuarial valuation, the individual entry-age actuarial cost method was used. The actuarial assumptions include a 3.5 percent per year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets. A discount rate of 3.5 percent was also used. There was also an inflationary rate assumption factored into the calculation.

NOTE J: CONTRACTUAL COMMITMENTS

As of June 30, 2016, the City had contractual commitments related to a project to restore the City's lighthouse. The commitment is summarized as follows:

<u>Project</u>	<u>Total Budget</u>	<u>Remaining Commitment June 30, 2016</u>
St. Joseph lighthouse restoration	\$ 1,678,304	\$ 116,919

Current fund balance and future revenue in the Lighthouse Improvement Fund is expected to be sufficient to cover this commitment.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K: CODE ENFORCEMENT FINANCIAL INFORMATION

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2016:

Cumulative excess at July 1, 2015	\$ 218,749
REVENUES	
Building permits	220,881
Electrical permits	10,043
Mechanical permits	31
Plumbing inspections	3,359
Plan Review fees	<u>84,553</u>
TOTAL REVENUES	318,867
EXPENDITURES	
Public safety	<u>(209,201)</u>
Cumulative excess revenues over expenditures at June 30, 2016	<u><u>\$ 328,415</u></u>

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, Commission, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

The formal action required to be taken to establish a fund balance commitment is the adoption of a City ordinance.

For assigned fund balance, the City has not approved a policy indicating who is authorized to assign amounts to a specific purpose. In the absence of such a policy, authorization is deemed to rest with the City Commission.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

The City has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first. In the absence of such a policy, resources with the highest level of restriction will be used first.

	General Fund	Lighthouse Improvement Fund	Nonmajor Governmental Funds	Total
Fund balances				
Nonspendable				
Inventory	\$ -	\$ -	\$ 65,344	\$ 65,344
Prepays	6,493	-	-	6,493
Endowment purposes	-	-	497,354	497,354
Restricted				
Streets	-	-	2,790,060	2,790,060
Cemetery	-	-	315,140	315,140
Public safety	328,415	-	9,764	338,179
Rubbish collection	-	-	12,145	12,145
Band	-	-	182,601	182,601
Library	-	-	672,736	672,736
Debt service	-	-	695,631	695,631
Capital projects	-	17,900	2,138,433	2,156,333
Committed				
Budget Stabilization	1,000,000	-	-	1,000,000
Equipment	-	-	149,073	149,073
Economic and community development	-	-	33,596	33,596
Assigned				
Subsequent year's expenditures	104,600	-	-	104,600
Unassigned	1,521,489	-	-	1,521,489
	<u>\$ 2,960,997</u>	<u>\$ 17,900</u>	<u>\$ 7,561,877</u>	<u>\$ 10,540,774</u>

NOTE M: CONTINGENT LIABILITIES

There are legal actions pending against the City. Due to the inconclusive nature of many of the actions, it is not possible for City Commission to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by City management and legal counsel to be immaterial.

NOTE N: SUBSEQUENT EVENT

After year end, the City entered into a contract with the Michigan Department of Transportation totaling \$488,600, related to traffic signal upgrades and new street signs. It is expected that future revenues and available fund balance in the Major Street Fund, Local Street Fund, and Street Improvement Fund will be sufficient to cover this future commitment.

City of St. Joseph

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE O: RESTATEMENT OF BEGINNING NET POSITION AND FUND BALANCE

Beginning net position and fund balance have been restated for governmental activities, Capital Improvement Fund, and Band Fund, respectively, for the overstatement of accrued wages.

	Governmental Activities	Capital Improvement Fund	Band Fund
Beginning net position	\$ 67,338,642	\$ 1,757,527	\$ 166,068
Overstated accrued wages	<u>577</u>	<u>43</u>	<u>534</u>
Restated beginning net position/fund balance	<u>\$ 67,339,219</u>	<u>\$ 1,757,570</u>	<u>\$ 166,602</u>

NOTE P: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 72, *Fair Value Measurement and Application*, was implemented during the current year. This statement addresses accounting and financial reporting related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

NOTE Q: UPCOMING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement will establish accounting and financial reporting requirements related to other postemployment benefit plans and specify the required approach to measuring the OPEB liability of employers. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. This statement will be effective for the 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of St. Joseph

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,277,200	\$ 5,277,200	\$ 5,277,897	\$ 697
Intergovernmental	873,000	873,000	942,473	69,473
Licenses and permits	349,600	349,600	513,886	164,286
Charges for services	1,595,100	1,595,100	1,628,642	33,542
Fines and forfeits	68,500	68,500	90,944	22,444
Interest and rents	15,500	15,500	15,823	323
Contributions	1,000	1,000	2,618	1,618
Other	21,100	21,100	96,305	75,205
TOTAL REVENUES	8,201,000	8,201,000	8,568,588	367,588
EXPENDITURES				
Current				
General government				
Legislative				
City Commission	40,100	40,100	31,986	8,114
Chief Executive				
City Manager	218,800	226,800	214,350	12,450
General Administration	129,300	129,300	145,799	(16,499)
Financial and Tax Administration				
Clerk	109,200	109,200	106,321	2,879
Treasurer	281,300	281,300	281,422	(122)
City Assessor	94,300	95,300	92,412	2,888
Building and Grounds				
Municipal buildings	153,300	153,300	144,563	8,737
Other general government				
City Attorney	119,000	122,700	118,904	3,796
Personnel Department	77,600	80,100	75,526	4,574
Total general government	1,222,900	1,238,100	1,211,283	26,817
Public safety				
Fire Department	1,151,200	1,245,400	1,187,814	57,586
Public Safety Department	2,430,900	2,396,500	2,272,927	123,573
Building Inspection Department	214,000	214,000	209,201	4,799
Code Enforcement	82,100	82,100	74,106	7,994
Total public safety	3,878,200	3,938,000	3,744,048	193,952
Public works				
Engineer	237,500	237,500	224,077	13,423
Street lighting	103,000	103,000	91,731	11,269
Department of public works	215,300	215,300	162,220	53,080
Total public works	555,800	555,800	478,028	77,772

City of St. Joseph

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES - CONTINUED				
Current - continued				
Health and welfare				
Ambulance	\$ 50,000	\$ 50,000	\$ 48,099	\$ 1,901
Community and economic development				
Planning	152,100	102,100	75,734	26,366
Economic development	60,000	60,000	60,000	-0-
Communications	247,000	278,500	275,863	2,637
Total community and economic development	459,100	440,600	411,597	29,003
Recreation and culture				
Parks	758,300	726,800	722,499	4,301
City recreation program	38,500	38,500	38,614	(114)
Ice Arena	221,900	221,900	192,680	29,220
Total recreation and culture	1,018,700	987,200	953,793	33,407
Other	365,000	340,000	249,520	90,480
Debt service				
Principal	114,800	114,800	114,283	517
Interest	38,300	38,300	38,764	(464)
Total debt service	153,100	153,100	153,047	53
TOTAL EXPENDITURES	7,702,800	7,702,800	7,249,415	453,385
EXCESS OF REVENUES OVER EXPENDITURES	498,200	498,200	1,319,173	820,973
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	294	294
Transfers out	(962,300)	(1,207,700)	(1,242,980)	(35,280)
TOTAL OTHER FINANCING SOURCES (USES)	(962,300)	(1,207,700)	(1,242,686)	(34,986)
NET CHANGE IN FUND BALANCE	(464,100)	(709,500)	76,487	785,987
Fund balance, beginning of year	2,884,510	2,884,510	2,884,510	-0-
Fund balance, end of year	<u>\$ 2,420,410</u>	<u>\$ 2,175,010</u>	<u>\$ 2,960,997</u>	<u>\$ 785,987</u>

City of St. Joseph

Defined Benefit Pension Plan

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

Last Three Fiscal Years (ultimately ten fiscal years will be displayed)

	2016	2015	2014
TOTAL PENSION LIABILITY			
Service cost	\$ 1,123,935	\$ 1,067,679	\$ 1,079,238
Interest	4,339,603	4,111,210	3,978,717
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(1,043,632)	(1,297,373)	-
Change of assumptions	-	2,588,347	-
Benefit payments, including refunds of member contributions	<u>(3,262,737)</u>	<u>(3,207,744)</u>	<u>(3,111,093)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	1,157,169	3,262,119	1,946,862
TOTAL PENSION LIABILITY, BEGINNING	<u>63,063,728</u>	<u>59,801,609</u>	<u>57,854,747</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 64,220,897</u>	<u>\$ 63,063,728</u>	<u>\$ 59,801,609</u>
PLAN FIDUCIARY NET POSITION			
Contributions - employer	\$ 1,053,862	\$ 1,064,307	\$ 1,117,203
Contributions - member	303,156	283,317	347,439
Net investment income	(541,499)	1,858,878	8,678,588
Benefit payments, including refunds of member contributions	(3,262,737)	(3,207,744)	(3,111,093)
Administrative expense	(69,384)	(45,394)	(109,294)
Other	<u>1,749</u>	<u>1,568</u>	<u>-</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(2,514,853)	(45,068)	6,922,843
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>63,356,717</u>	<u>63,401,785</u>	<u>56,478,942</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 60,841,864</u>	<u>\$ 63,356,717</u>	<u>\$ 63,401,785</u>
SYSTEM'S NET PENSION (ASSET) LIABILITY, ENDING (A)-(B)	<u>\$ 3,379,033</u>	<u>\$ (292,989)</u>	<u>\$ (3,600,176)</u>
Plan fiduciary net position as a percentage of the total pension liability	94.74%	100.46%	106.02%
Covered-employee payroll	\$ 5,751,620	\$ 5,801,272	\$ 5,858,840
System's net pension liability (asset) as a percentage of covered-employee payroll	58.75%	(5.05)%	(61.45)%

City of St. Joseph

Defined Benefit Pension Plan

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Three Fiscal Years (ultimately ten fiscal years will be displayed)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,086,271	\$ 1,129,118	\$ 1,255,841
Contributions in relation to the actuarially determined contribution	<u>1,053,862</u>	<u>1,064,306</u>	<u>1,117,203</u>
Contribution deficiency (excess)	<u>\$ 32,409</u>	<u>\$ 64,812</u>	<u>\$ 138,638</u>
Covered-employee payroll	\$ 5,751,620	\$ 5,801,272	\$ 5,858,840
Contributions as a percentage of covered-employee payroll	18.32%	18.35%	19.07%

City of St. Joseph

Defined Benefit Pension Plan

SCHEDULE OF INVESTMENT RETURNS

Last Three Fiscal Years (ultimately ten years will be displayed)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	(0.98%)	2.91%	15.42%

City of St. Joseph

Defined Benefit Pension Plan

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)

Last Two Fiscal Years (ultimately ten years will be displayed)

	<u>2016</u>	<u>2015</u>
City's proportion of net pension liability (asset)	82.701%	83.805%
City's proportionate share of net pension liability (asset)	\$ 2,794,494	\$ (891,941)
City's covered employee payroll	3,199,377	2,999,915
City's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	87.34%	-29.73%

City of St. Joseph

Defined Benefit Pension Plan

SCHEDULE OF CITY CONTRIBUTIONS

Last Two Fiscal Years (ultimately ten years will be displayed)

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 898,357	\$ 969,106
Contributions in relation to the actuarially determined contribution	<u>871,555</u>	<u>891,941</u>
Contribution deficiency (excess)	<u>\$ 26,802</u>	<u>\$ 77,165</u>
Covered employee payroll	\$ 3,199,377	\$ 2,999,915
Contributions as a percentage of covered-employee payroll	27.24%	29.73%

City of St. Joseph

Other Post-Employment Benefits

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) (Entry Age)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2014	\$ -	\$ 2,079,964	\$ 2,079,964	0.00%	\$ 1,410,914	147.42%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 159,342	16.70%	\$ 2,134,720
2015	167,910	118.10%	2,002,048
2014	124,764	30.30%	2,032,496

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2016

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

The City's budgeted expenditures in the General Fund have been shown at the activity level. The City's budgeted expenditures for nonmajor Special Revenue Funds are not required to be reported in the financial statements. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2016, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Chief Executive	\$ 129,300	\$ 145,799	\$ 16,499
General Administration			
Financial and Tax Administration			
Treasurer	281,300	281,422	122
Recreation and Culture			
City recreation program	38,500	38,614	114
Debt service			
Interest	38,300	38,764	464
Transfers out	1,207,700	1,242,980	35,280

NOTE B: DEFINED BENEFIT PENSION PLAN

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The accompanying schedules of employer contributions presents trend information about the amounts contributed to the plan by the employer in comparison to the Annual Pension Costs (APC), which is calculated from the Annual Required Contribution (ARC), an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortized any unfunded actuarial liabilities (or fund excess) over a period not to exceed thirty years.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

Year Ended June 30, 2016

NOTE B: DEFINED BENEFIT PENSION PLAN - CONTINUED

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 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 percentage of payroll, closed
Remaining amortization period	16 years
Asset valuation method	5-year smoothed market
Inflation	4.00%
Salary increases	4.1% to 8.0% including inflation
Investment rate of return	7.00% (net of investment and administrative expenses)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2010 valuation pursuant to an experience study of the period 2004-2009.
Mortality rates	RP-2000 Male (110%) and Female (unadjusted) Healthy Life Mortality Table

Changes in Benefit Terms: There were no changes of benefit terms in fiscal year 2015.

Changes in Assumptions: For amounts reported prior to 2015, the expectation of retired life mortality was based on RP-2000 Mortality table unadjusted for women with 110% of the table rates for men. For amounts reported 2015 and later, the expectation of retired life mortality was based on RP-2000 Mortality table projected 20 years unadjusted for women with 110% of the table rates for men.

OTHER SUPPLEMENTARY INFORMATION

City of St. Joseph

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2016

	Special Revenue Funds				
	Major Street	Local Street	Street Improvement	Cemetery	Depot
ASSETS					
Cash and cash equivalents	\$ 1,065,534	\$ 133,255	\$ 1,499,680	\$ 165,591	\$ 148,673
Investments	-	-	-	-	-
Accounts receivable	-	-	21,253	-	400
Due from other governmental units	78,983	49,972	-	-	-
Due from other funds	-	12,668	-	-	-
Inventory	-	65,344	-	-	-
TOTAL ASSETS	<u>\$ 1,144,517</u>	<u>\$ 261,239</u>	<u>\$ 1,520,933</u>	<u>\$ 165,591</u>	<u>\$ 149,073</u>
LIABILITIES					
Accounts payable	\$ 628	\$ 756	\$ 40,293	\$ 545	\$ -
Accrued liabilities	-	12,383	841	6,471	-
Due to other funds	13,268	3,116	-	-	-
TOTAL LIABILITIES	13,896	16,255	41,134	7,016	-0-
FUND BALANCES					
Nonspendable	-	65,344	-	-	-
Restricted	1,130,621	179,640	1,479,799	158,575	-
Committed	-	-	-	-	149,073
TOTAL FUND BALANCES	<u>1,130,621</u>	<u>244,984</u>	<u>1,479,799</u>	<u>158,575</u>	<u>149,073</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,144,517</u>	<u>\$ 261,239</u>	<u>\$ 1,520,933</u>	<u>\$ 165,591</u>	<u>\$ 149,073</u>

Special Revenue Funds

Garbage and Rubbish Collection	Brownfield Authority	Drug Forfeiture	Criminal Forfeiture	Band	Public Library	Justice Training
\$ 7,780	\$ 33,596	\$ 4,296	\$ 100	\$ 186,467	\$ 293,491	\$ 5,368
-	-	-	-	-	-	-
1,804	-	-	-	-	-	-
14,155	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 23,739</u>	<u>\$ 33,596</u>	<u>\$ 4,296</u>	<u>\$ 100</u>	<u>\$ 186,467</u>	<u>\$ 293,491</u>	<u>\$ 5,368</u>
\$ 466	\$ -	\$ -	\$ -	\$ 104	\$ 1,408	\$ -
11,128	-	-	-	3,762	23,220	-
-	-	-	-	-	-	-
11,594	-0-	-0-	-0-	3,866	24,628	-0-
-	-	-	-	-	-	-
12,145	-	4,296	100	182,601	268,863	5,368
-	33,596	-	-	-	-	-
<u>12,145</u>	<u>33,596</u>	<u>4,296</u>	<u>100</u>	<u>182,601</u>	<u>268,863</u>	<u>5,368</u>
<u>\$ 23,739</u>	<u>\$ 33,596</u>	<u>\$ 4,296</u>	<u>\$ 100</u>	<u>\$ 186,467</u>	<u>\$ 293,491</u>	<u>\$ 5,368</u>

City of St. Joseph

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2016

	<u>Capital Projects Funds</u>		
	<u>Debt Service Fund</u>	<u>Capital Improvement</u>	<u>SAW Grant Project</u>
ASSETS			
Cash and cash equivalents	\$ 695,631	\$ 1,869,289	\$ 131,780
Investments	-	-	-
Accounts receivable	-	8,794	-
Due from other governmental units	-	-	-
Due from other funds	-	101,800	-
Inventory	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 695,631</u>	<u>\$ 1,979,883</u>	<u>\$ 131,780</u>
LIABILITIES			
Accounts payable	\$ -	\$ 9,985	\$ 48,037
Accrued liabilities	-	804	74
Due to other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	-0-	10,789	48,111
FUND BALANCES			
Nonspendable	-	-	-
Restricted	695,631	1,969,094	83,669
Committed	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>695,631</u>	<u>1,969,094</u>	<u>83,669</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 695,631</u>	<u>\$ 1,979,883</u>	<u>\$ 131,780</u>

Capital Projects Funds		Permanent Funds		
Library Capital Improvements	CSO Storage Project	Cemetery Perpetual Care	Library Endowment	Total
\$ 179,945	\$ 85,670	\$ 156,565	\$ 319,282	\$ 6,981,993
-	-	-	402,000	402,000
-	-	-	-	30,447
-	-	-	-	130,759
-	-	-	-	128,623
-	-	-	-	65,344
<u>\$ 179,945</u>	<u>\$ 85,670</u>	<u>\$ 156,565</u>	<u>\$ 721,282</u>	<u>\$ 7,739,166</u>
\$ -	\$ -	\$ -	\$ -	\$ 102,222
-	-	-	-	58,683
-	-	-	-	16,384
-0-	-0-	-0-	-0-	177,289
-	-	-	497,354	562,698
179,945	85,670	156,565	223,928	6,816,510
-	-	-	-	182,669
<u>179,945</u>	<u>85,670</u>	<u>156,565</u>	<u>721,282</u>	<u>7,561,877</u>
<u>\$ 179,945</u>	<u>\$ 85,670</u>	<u>\$ 156,565</u>	<u>\$ 721,282</u>	<u>\$ 7,739,166</u>

City of St. Joseph

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

	Special Revenue Funds				
	Major Street	Local Street	Street Improvement	Cemetery	Depot
REVENUES					
Taxes	\$ -	\$ -	\$ 438,934	\$ -	\$ -
Intergovernmental	444,849	269,606	835,262	-	-
Charges for services	-	-	-	166,571	-
Fines and forfeits	-	-	-	-	-
Interest	470	432	761	130	23,219
Contributions	-	-	-	820	-
Other	-	13	53,797	25	-
TOTAL REVENUES	445,319	270,051	1,328,754	167,546	23,219
EXPENDITURES					
Current					
General government	-	-	-	248,793	5,357
Public safety	-	-	-	-	-
Public works	1,243,226	397,247	124,671	-	-
Recreation and culture	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Capital outlay	-	-	212,779	11,750	-
TOTAL EXPENDITURES	1,243,226	397,247	337,450	260,543	5,357
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(797,907)	(127,196)	991,304	(92,997)	17,862
OTHER FINANCING SOURCES (USES)					
Transfers in	1,049,504	175,000	500,000	80,000	-
Transfers out	(60,000)	-	(1,462,769)	-	(3,128)
TOTAL OTHER FINANCING SOURCES (USES)	989,504	175,000	(962,769)	80,000	(3,128)
NET CHANGE IN FUND BALANCES	191,597	47,804	28,535	(12,997)	14,734
Restated fund balances, beginning of year	939,024	197,180	1,451,264	171,572	134,339
Fund balances, end of year	\$ 1,130,621	\$ 244,984	\$ 1,479,799	\$ 158,575	\$ 149,073

Special Revenue Funds

Garbage and Rubbish Collection	Brownfield Authority	Drug Forfeiture	Criminal Forfeiture	Band	Public Library	Justice Training
\$ 795,129	\$ -	\$ -	\$ -	\$ 109,718	\$ 298,463	\$ -
6,304	-	-	-	-	194,381	3,459
2,559	-	-	-	1,830	9,301	-
-	-	-	-	-	193,945	-
31	27	1	-	104	2,242	-
-	-	-	-	-	38,789	-
200	-	-	-	70	7,229	-
804,223	27	1	-0-	111,722	744,350	3,459
-	-	-	-	-	-	-
-	-	1,026	-	-	-	4,285
1,076,422	-	-	-	-	-	-
-	-	-	-	95,723	726,352	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,076,422	-0-	1,026	-0-	95,723	726,352	4,285
(272,199)	27	(1,025)	-0-	15,999	17,998	(826)
273,128	-	-	-	-	18,300	-
-	-	-	-	-	-	-
273,128	-0-	-0-	-0-	-0-	18,300	-0-
929	27	(1,025)	-	15,999	36,298	(826)
11,216	33,569	5,321	100	166,602	232,565	6,194
\$ 12,145	\$ 33,596	\$ 4,296	\$ 100	\$ 182,601	\$ 268,863	\$ 5,368

City of St. Joseph

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended June 30, 2016

	<u>Capital Projects Funds</u>		
	<u>Debt Service Fund</u>	<u>Capital Improvement</u>	<u>SAW Grant Project</u>
REVENUES			
Taxes	\$ 589,951	\$ -	\$ -
Intergovernmental	-	-	49,365
Charges for services	-	-	-
Fines and forfeits	-	-	-
Interest	494	1,306	-
Contributions	-	177,214	-
Other	3,656	1,590	-
	<u>594,101</u>	<u>180,110</u>	<u>49,365</u>
TOTAL REVENUES	594,101	180,110	49,365
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	18,602	-	-
Recreation and culture	-	-	-
Debt service			
Principal	380,000	221,723	-
Interest and fees	162,226	4,650	-
Capital outlay	-	368,993	187,546
	<u>560,828</u>	<u>595,366</u>	<u>187,546</u>
TOTAL EXPENDITURES	560,828	595,366	187,546
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	33,273	(415,256)	(138,181)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	764,780	154,600
Transfers out	-	(138,000)	-
	<u>-0-</u>	<u>626,780</u>	<u>154,600</u>
TOTAL OTHER FINANCING SOURCES (USES)	-0-	626,780	154,600
NET CHANGE IN FUND BALANCES	33,273	211,524	16,419
Restated fund balances, beginning of year	<u>662,358</u>	<u>1,757,570</u>	<u>67,250</u>
Fund balances, end of year	<u>\$ 695,631</u>	<u>\$ 1,969,094</u>	<u>\$ 83,669</u>

Capital Projects Funds		Permanent Funds		
Library Capital Improvement	CSO Storage Project	Cemetery Perpetual Care	Library Endowment	Total
\$ -	\$ -	\$ -	\$ -	\$ 2,232,195
-	-	-	-	1,803,226
-	-	-	-	180,261
-	-	-	-	193,945
-	-	272	6,189	35,678
272,600	-	-	1,550	490,973
-	-	-	-	66,580
<u>272,600</u>	<u>-0-</u>	<u>272</u>	<u>7,739</u>	<u>5,002,858</u>
-	-	-	-	254,150
-	-	-	-	5,311
-	-	-	-	2,860,168
-	-	-	-	822,075
-	-	-	-	601,723
-	-	-	-	166,876
89,416	14,330	-	-	884,814
<u>89,416</u>	<u>14,330</u>	<u>-0-</u>	<u>-0-</u>	<u>5,595,117</u>
183,184	(14,330)	272	7,739	(592,259)
-	100,000	-	-	3,115,312
(12,500)	-	(11,800)	(5,800)	(1,693,997)
<u>(12,500)</u>	<u>100,000</u>	<u>(11,800)</u>	<u>(5,800)</u>	<u>1,421,315</u>
170,684	85,670	(11,528)	1,939	829,056
9,261	-	168,093	719,343	6,732,821
<u>\$ 179,945</u>	<u>\$ 85,670</u>	<u>\$ 156,565</u>	<u>\$ 721,282</u>	<u>\$ 7,561,877</u>

City of St. Joseph

Internal Service Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2016

	Self Insurance	Motor Pool	Employee Health Care	Public Works	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 290,596	\$ 547,567	\$ 897,912	\$ -	\$ 1,736,075
Due from other funds	-	44,816	6,793	-	51,609
Inventory	-	33,001	-	-	33,001
Prepays	-	-	33,714	-	33,714
Total current assets	290,596	625,384	938,419	-0-	1,854,399
Noncurrent assets					
Capital assets, net of accumulated depreciation	-	1,318,532	-	-	1,318,532
TOTAL ASSETS	290,596	1,943,916	938,419	-0-	3,172,931
LIABILITIES					
Current liabilities					
Accounts payable	-	22,190	131,612	-	153,802
Accrued wages	-	6,627	-	-	6,627
Compensated absences	-	5,960	-	-	5,960
TOTAL LIABILITIES	-0-	34,777	131,612	-0-	166,389
NET POSITION					
Unrestricted	<u>\$ 290,596</u>	<u>\$ 1,909,139</u>	<u>\$ 806,807</u>	<u>\$ -0-</u>	<u>\$ 3,006,542</u>

City of St. Joseph

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

Year Ended June 30, 2016

	<u>Self Insurance</u>	<u>Motor Pool</u>	<u>Employee Health Care</u>	<u>Public Works</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ -	\$ -	\$ -	\$ 1,268,910	\$ 1,268,910
Rents	-	864,714	-	-	864,714
Other	230,776	32,188	1,870,165	-	2,133,129
TOTAL OPERATING REVENUES	230,776	896,902	1,870,165	1,268,910	4,266,753
OPERATING EXPENSES					
Personal services					
Salaries and wages	-	24,634	-	792,698	817,332
Fringe benefits	-	9,424	1,430,217	516,493	1,956,134
Supplies	-	204,538	-	-	204,538
Contractual services	10,695	142,038	13,285	-	166,018
Insurance	154,747	44,555	-	-	199,302
Transportation	-	826	-	-	826
Repairs and maintenance	-	73,938	-	-	73,938
Miscellaneous	-	381	3,652	-	4,033
Depreciation	-	237,876	-	-	237,876
TOTAL OPERATING EXPENSES	165,442	738,210	1,447,154	1,309,191	3,659,997
OPERATING INCOME (LOSS)	65,334	158,692	423,011	(40,281)	606,756
NONOPERATING REVENUE					
Interest Income	136	333	426	-	895
INCOME (LOSS) BEFORE TRANSFERS	65,470	159,025	423,437	(40,281)	607,651
TRANSFERS					
Transfers out	-	-	-	(294)	(294)
CHANGE IN NET POSITION	65,470	159,025	423,437	(40,575)	607,357
Net position, beginning of year	225,126	1,750,114	383,370	40,575	2,399,185
Net position, end of year	<u>\$ 290,596</u>	<u>\$ 1,909,139</u>	<u>\$ 806,807</u>	<u>\$ -0-</u>	<u>\$ 3,006,542</u>

City of St. Joseph

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

	Self Insurance	Motor Pool	Employee Health Care	Public Works	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	\$ 230,776	\$ 852,086	\$ 1,863,372	\$ 1,348,102	\$ 4,294,336
Cash paid to suppliers	(165,442)	(449,984)	(1,313,770)	(561,824)	(2,491,020)
Cash paid to employees	-	(12,047)	-	(834,635)	(846,682)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	65,334	390,055	549,602	(48,357)	956,634
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment of interfund balances	-	(3,684)	-	(9)	(3,693)
Transfers out	-	-	-	(294)	(294)
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	-0-	(3,684)	-0-	(303)	(3,987)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Purchase of capital assets	-	(431,291)	-	-	(431,291)
Proceeds from sale of assets	-	13,321	-	-	13,321
NET CASH (USED) BY CAPITAL AND FINANCING ACTIVITIES	-0-	(417,970)	-0-	-0-	(417,970)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	136	333	426	-	895
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,470	(31,266)	550,028	(48,660)	535,572
Cash and cash equivalents, beginning of year	225,126	578,833	347,884	48,660	1,200,503
Cash and cash equivalents, end of year	<u>\$ 290,596</u>	<u>\$ 547,567</u>	<u>\$ 897,912</u>	<u>\$ -0-</u>	<u>\$ 1,736,075</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 65,334	\$ 158,692	\$ 423,011	\$ (40,281)	\$ 606,756
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities					
Depreciation expense	-	237,876	-	-	237,876
(Increase) decrease in:					
Due from other funds	-	(44,816)	(6,793)	79,192	27,583
Prepaid insurance	-	-	1,772	-	1,772
Inventory	-	5,453	-	-	5,453
Increase (decrease) in:					
Accounts payable	-	20,263	131,612	-	151,875
Accrued wages	-	6,627	-	(41,937)	(35,310)
Other accrued liabilities	-	-	-	(45,331)	(45,331)
Compensated absences	-	5,960	-	-	5,960
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 65,334	\$ 390,055	\$ 549,602	\$ (48,357)	\$ 956,634

City of St. Joseph

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2016

ASSETS	
Cash and cash equivalents	\$ 35,915
Due from other governmental units	<u>431</u>
TOTAL ASSETS	<u>\$ 36,346</u>
LIABILITIES	
Accrued wages	\$ 603
Due to other governmental units	<u>1,804</u>
TOTAL LIABILITIES	2,407
FUND BALANCE	
Unassigned	<u>33,939</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 36,346</u>

Note: Reconciliation of the governmental fund balance sheet to the statement of net position for this component unit is not required as the fund balance was equal to the net position as of June 30, 2016.

City of St. Joseph

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2016

REVENUES	
Taxes	\$ 52,584
Interest	41
Contributions	<u>5,000</u>
TOTAL REVENUES	57,625
EXPENDITURES	
Current	
Community and economic development	<u>88,143</u>
NET CHANGE IN FUND BALANCE	(30,518)
Fund balance, beginning of year	<u>64,457</u>
Fund balance, end of year	<u><u>\$ 33,939</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and change in fund balance of this component unit's governmental fund to the statement of activities is not required as the net change in fund balance was equal to the change in net position for the year ended June 30, 2016.

City of St. Joseph

SCHEDULE OF 2003 STATE REVOLVING FUND BONDS
PROJECT #5190-01

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal October 1	Balance
			October 1	April 1		
2017	2.50%	\$ 112,623	\$ 9,405	\$ 8,218	\$ 95,000	\$ 657,410
2018	2.50%	110,248	8,218	7,030	95,000	562,410
2019	2.50%	107,873	7,030	5,843	95,000	467,410
2020	2.50%	105,498	5,843	4,655	95,000	372,410
2021	2.50%	103,123	4,655	3,468	95,000	277,410
2022	2.50%	100,748	3,468	2,280	95,000	182,410
2023	2.50%	98,373	2,280	1,093	95,000	87,410
2024	2.50%	88,503	1,093	-	87,410	-0-
		<u>\$ 826,989</u>	<u>\$ 41,992</u>	<u>\$ 32,587</u>	<u>\$ 752,410</u>	

City of St. Joseph

SCHEDULE OF 2004 STATE REVOLVING FUND BONDS
PROJECT #5190-02

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.125%	\$ 133,097	\$ 11,548	\$ 11,549	\$ 110,000	\$ 976,902
2018	2.125%	135,760	10,380	10,380	115,000	861,902
2019	2.125%	133,316	9,158	9,158	115,000	746,902
2020	2.125%	135,872	7,936	7,936	120,000	626,902
2021	2.125%	133,322	6,661	6,661	120,000	506,902
2022	2.125%	135,772	5,386	5,386	125,000	381,902
2023	2.125%	133,116	4,058	4,058	125,000	256,902
2024	2.125%	135,460	2,730	2,730	130,000	126,902
2025	2.125%	129,599	1,348	1,349	126,902	-0-
		<u>\$ 1,205,314</u>	<u>\$ 59,205</u>	<u>\$ 59,207</u>	<u>\$ 1,086,902</u>	

City of St. Joseph

SCHEDULE OF CAPITAL IMPROVEMENT NOTE
BERRIEN COUNTY REVOLVING LOAN FUND

June 30, 2016

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Annual Debt Service</u>	<u>Interest</u>	<u>Principal January 1</u>	<u>Balance</u>
2017	0.000%	\$ 25,000	\$ -	\$ 25,000	\$ 75,000
2018	0.000%	25,000	-	25,000	50,000
2019	0.000%	25,000	-	25,000	25,000
2020	0.000%	25,000	-	25,000	-0-
		<u>\$ 100,000</u>	<u>\$ -0-</u>	<u>\$ 100,000</u>	

City of St. Joseph

SCHEDULE OF BLUFFSIDE INSTALLMENT LOAN

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal		Balance
			August 8	February 8	August 8	February 8	
2017	4.350%	\$ 128,047	\$ 17,660	\$ 16,653	\$ 46,363	\$ 47,371	\$ 719,539
2018	4.350%	128,048	15,622	14,570	48,402	49,454	621,683
2019	4.350%	128,048	13,494	12,395	50,530	51,629	519,524
2020	4.350%	128,047	11,271	10,125	52,752	53,899	412,873
2021	4.350%	128,048	8,953	7,754	55,072	56,269	301,532
2022	4.350%	128,048	6,531	5,280	57,493	58,744	185,295
2023	4.350%	128,048	4,002	2,697	60,022	61,327	63,946
2024	4.350%	65,301	1,355	-	63,946	-	-0-
		<u>\$ 961,635</u>	<u>\$ 78,888</u>	<u>\$ 69,474</u>	<u>\$ 434,580</u>	<u>\$ 378,693</u>	

City of St. Joseph

SCHEDULE OF 2011 REFUNDING BONDS

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal May 1	Balance
			November 1	May 1		
2017	3.000%	\$ 296,418	\$ 55,709	\$ 55,709	\$ 185,000	\$ 2,740,000
2018	3.000%	305,868	52,934	52,934	200,000	2,540,000
2019	3.500%	309,868	49,934	49,934	210,000	2,330,000
2020	3.500%	317,518	46,259	46,259	225,000	2,105,000
2021	4.000%	329,644	42,322	42,322	245,000	1,860,000
2022	4.000%	339,844	37,422	37,422	265,000	1,595,000
2023	4.000%	344,244	32,122	32,122	280,000	1,315,000
2024	4.000%	353,044	26,522	26,522	300,000	1,015,000
2025	4.000%	361,044	20,522	20,522	320,000	695,000
2026	4.000%	368,244	14,122	14,122	340,000	355,000
2027	4.125%	369,644	7,322	7,322	355,000	-0-
		<u>\$ 3,695,380</u>	<u>\$ 385,190</u>	<u>\$ 385,190</u>	<u>\$ 2,925,000</u>	

City of St. Joseph

SCHEDULE OF 2014 FIRE TRUCK INSTALLMENT LOAN

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal		Balance
			November 1	May 1	November 1	May 1	
2017	1.190%	\$ 226,373	\$ 1,335	\$ 669	\$ 111,852	\$ 112,517	\$ -0-

City of St. Joseph

SCHEDULE OF 2008 CAPITAL IMPROVEMENT BONDS
PROJECT #7236-01

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.500%	\$ 198,638	\$ 29,319	\$ 29,319	\$ 140,000	\$ 2,205,496
2018	2.500%	200,138	27,569	27,569	145,000	2,060,496
2019	2.500%	201,512	25,756	25,756	150,000	1,910,496
2020	2.500%	202,762	23,881	23,881	155,000	1,755,496
2021	2.500%	198,888	21,944	21,944	155,000	1,600,496
2022	2.500%	200,012	20,006	20,006	160,000	1,440,496
2023	2.500%	201,012	18,006	18,006	165,000	1,275,496
2024	2.500%	201,888	15,944	15,944	170,000	1,105,496
2025	2.500%	201,638	12,819	13,819	175,000	930,496
2026	2.500%	203,262	11,631	11,631	180,000	750,496
2027	2.500%	198,762	9,381	9,381	180,000	570,496
2028	2.500%	199,262	7,131	7,131	185,000	385,496
2029	2.500%	199,638	4,819	4,819	190,000	195,496
2030	2.500%	200,384	2,444	2,444	195,496	-0-
		<u>\$ 2,807,796</u>	<u>\$ 230,650</u>	<u>\$ 231,650</u>	<u>\$ 2,345,496</u>	

City of St. Joseph

SCHEDULE OF 2009 CLEAN WATER BONDS
PROJECT #5322-01

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.500%	\$ 14,275	\$ 2,137	\$ 2,138	\$ 10,000	\$ 161,000
2018	2.500%	14,025	2,012	2,013	10,000	151,000
2019	2.500%	13,775	1,887	1,888	10,000	141,000
2020	2.500%	13,525	1,762	1,763	10,000	131,000
2021	2.500%	13,275	1,637	1,638	10,000	121,000
2022	2.500%	13,025	1,512	1,513	10,000	111,000
2023	2.500%	12,775	1,387	1,388	10,000	101,000
2024	2.500%	13,525	1,262	1,263	11,000	90,000
2025	2.500%	17,250	1,125	1,125	15,000	75,000
2026	2.500%	16,875	937	938	15,000	60,000
2027	2.500%	16,500	750	750	15,000	45,000
2028	2.500%	16,125	562	563	15,000	30,000
2029	2.500%	15,750	375	375	15,000	15,000
2030	2.500%	15,375	187	188	15,000	-0-
		<u>\$ 206,075</u>	<u>\$ 17,532</u>	<u>\$ 17,543</u>	<u>\$ 171,000</u>	

City of St. Joseph

SCHEDULE OF 2009 CLEAN WATER BONDS
PROJECT #7237-01

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.500%	\$ 381,737	\$ 62,493	\$ 59,244	\$ 260,000	\$ 4,739,460
2018	2.500%	380,174	59,243	55,931	265,000	4,474,460
2019	2.500%	378,487	55,931	52,556	270,000	4,204,460
2020	2.500%	381,612	52,556	49,056	280,000	3,924,460
2021	2.500%	379,549	49,056	45,493	285,000	3,639,460
2022	2.500%	377,361	45,493	41,868	290,000	3,349,460
2023	2.500%	379,986	41,868	38,118	300,000	3,049,460
2024	2.500%	377,424	38,118	34,306	305,000	2,744,460
2025	2.500%	379,674	34,306	30,368	315,000	2,429,460
2026	2.500%	376,736	30,368	26,368	320,000	2,109,460
2027	2.500%	378,612	26,368	22,244	330,000	1,779,460
2028	2.500%	375,299	22,243	18,056	335,000	1,444,460
2029	2.500%	381,737	18,056	13,681	350,000	1,094,460
2030	2.500%	377,924	13,681	9,243	355,000	739,460
2031	2.500%	378,924	9,243	4,681	365,000	374,460
2032	2.500%	379,141	4,681	-	374,460	-0-
		<u>\$ 6,064,377</u>	<u>\$ 563,704</u>	<u>\$ 501,213</u>	<u>\$ 4,999,460</u>	

City of St. Joseph

SCHEDULE OF 2010 CLEAN WATER BONDS
PROJECT #7286-01

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.500%	\$ 81,438	\$ 13,562	\$ 12,876	\$ 55,000	\$ 1,030,000
2018	2.500%	80,063	12,875	12,188	55,000	975,000
2019	2.500%	83,625	12,187	11,438	60,000	915,000
2020	2.500%	82,125	11,437	10,688	60,000	855,000
2021	2.500%	80,625	10,687	9,938	60,000	795,000
2022	2.500%	84,063	9,937	9,126	65,000	730,000
2023	2.500%	82,438	9,125	8,313	65,000	665,000
2024	2.500%	80,812	8,312	7,500	65,000	600,000
2025	2.500%	84,125	7,500	6,625	70,000	530,000
2026	2.500%	82,375	6,625	5,750	70,000	460,000
2027	2.500%	80,625	5,750	4,875	70,000	390,000
2028	2.500%	83,813	4,875	3,938	75,000	315,000
2029	2.500%	81,937	3,937	3,000	75,000	240,000
2030	2.500%	80,063	3,000	2,063	75,000	165,000
2031	2.500%	83,125	2,062	1,063	80,000	85,000
2032	2.500%	86,063	1,063	-	85,000	-0-
		<u>\$ 1,317,315</u>	<u>\$ 122,934</u>	<u>\$ 109,381</u>	<u>\$ 1,085,000</u>	

City of St. Joseph

SCHEDULE OF 2010 MARINA INSTALLMENT LOAN

June 30, 2016

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Annual Debt Service</u>	<u>Interest</u>	<u>Principal December 31</u>	<u>Balance</u>
2017	-	\$ 13,889	\$ -	\$ 13,889	\$ 55,555
2018	-	13,889	-	13,889	41,666
2019	-	13,889	-	13,889	27,777
2020	-	13,889	-	13,889	13,888
2021	-	13,888	-	13,888	-0-
		<u>\$ 69,444</u>	<u>\$ -0-</u>	<u>\$ 69,444</u>	

City of St. Joseph

SCHEDULE OF 2012 CLEAN WATER BONDS
PROJECT #5518-01

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.500%	\$ 14,250	\$ 2,125	\$ 2,125	\$ 10,000	\$ 160,000
2018	2.500%	14,000	2,000	2,000	10,000	150,000
2019	2.500%	13,750	1,875	1,875	10,000	140,000
2020	2.500%	13,500	1,750	1,750	10,000	130,000
2021	2.500%	13,250	1,625	1,625	10,000	120,000
2022	2.500%	13,000	1,500	1,500	10,000	110,000
2023	2.500%	12,750	1,375	1,375	10,000	100,000
2024	2.500%	12,500	1,250	1,250	10,000	90,000
2025	2.500%	12,250	1,125	1,125	10,000	80,000
2026	2.500%	12,000	1,000	1,000	10,000	70,000
2027	2.500%	11,750	875	875	10,000	60,000
2028	2.500%	11,500	750	750	10,000	50,000
2029	2.500%	11,250	625	625	10,000	40,000
2030	2.500%	11,000	500	500	10,000	30,000
2031	2.500%	15,750	375	375	15,000	15,000
2032	2.500%	15,375	188	187	15,000	-0-
		<u>\$ 207,875</u>	<u>\$ 18,938</u>	<u>\$ 18,937</u>	<u>\$ 170,000</u>	

City of St. Joseph

SCHEDULE OF GENERAL LIMITED TAX BONDS,
SERIES 2012

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal May 1	Balance
			November 1	May 1		
2017	1.750%	\$ 83,320	\$ 6,966	\$ 6,354	\$ 70,000	\$ 460,000
2018	2.050%	81,990	6,354	5,636	70,000	390,000
2019	2.350%	85,391	5,636	4,755	75,000	315,000
2020	2.600%	83,535	4,755	3,780	75,000	240,000
2021	2.900%	86,400	3,780	2,620	80,000	160,000
2022	3.200%	83,960	2,620	1,340	80,000	80,000
2023	3.350%	81,340	1,340	-	80,000	-0-
		<u>\$ 585,936</u>	<u>\$ 31,451</u>	<u>\$ 24,485</u>	<u>\$ 530,000</u>	

City of St. Joseph

SCHEDULE OF 2013 CLEAN WATER BONDS
PROJECT #5518-02

June 30, 2016

Year Ending June 30,	Interest Rate	Annual Debt Service	Interest		Principal April 1	Balance
			October 1	April 1		
2017	2.000%	\$ 14,374	\$ 2,187	\$ 2,187	\$ 10,000	\$ 208,702
2018	2.000%	14,174	2,087	2,087	10,000	198,702
2019	2.000%	13,974	1,987	1,987	10,000	188,702
2020	2.000%	13,774	1,887	1,887	10,000	178,702
2021	2.000%	13,574	1,787	1,787	10,000	168,702
2022	2.000%	13,374	1,687	1,687	10,000	158,702
2023	2.000%	13,174	1,587	1,587	10,000	148,702
2024	2.000%	12,974	1,487	1,487	10,000	138,702
2025	2.000%	17,774	1,387	1,387	15,000	123,702
2026	2.000%	17,474	1,237	1,237	15,000	108,702
2027	2.000%	17,174	1,087	1,087	15,000	93,702
2028	2.000%	16,874	937	937	15,000	78,702
2029	2.000%	16,574	787	787	15,000	63,702
2030	2.000%	16,274	637	637	15,000	48,702
2031	2.000%	15,974	487	487	15,000	33,702
2032	2.000%	15,674	337	337	15,000	18,702
2033	2.000%	19,076	187	187	18,702	-0-
		<u>\$ 262,260</u>	<u>\$ 21,779</u>	<u>\$ 21,779</u>	<u>\$ 218,702</u>	

Principals

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

To the City Commission
City of St. Joseph, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 City of St. Joseph (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 7, 2016. We did not audit the financial statements of the City of St. Joseph Housing Commission, which represent 98 percent, 98 percent, and 92 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Southwest Michigan Regional Airport Authority, which represents 15 percent, 16 percent, and 0 percent, respectively, of the assets, net position, and revenues of the governmental activities. We did not audit the financial statements of the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant, which represents 25 percent, 32 percent, and 4 percent, respectively, of the assets, net position, and revenues of the business-type activities and 71 percent, 76 percent, and 17 percent, respectively, of the assets, net position, and revenues of the Sewer Fund, which is a major fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they related to the amounts included for the aggregate discretely presented component units, the governmental activities, the business-type activities, and the Sewer Fund, are based solely on the reports of other auditors.

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 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 7, 2016