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Independent Auditor's Report

To the Mayor and City Council
City of Lincoln Park, 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 Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the City of Lincoln Park, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 modified audit opinions on the governmental activities, business-type activities, and water and sewer fund and our audit opinion on the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

Statement of Net Position
June 30, 2017

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 13,781,979	$ 2,538,712	$ 16,320,691	$ 1,405,216
Receivables:				
Customers	432,823	2,925,831	3,358,654	-
Loans receivable	-	-	-	39,674
Other receivables	70,721	-	70,721	-
Due from other governmental units	2,319,333	-	2,319,333	25,340
Special assessments receivable	14,082	-	14,082	-
Due from component units (Note 5)	3,273	-	3,273	-
Due from primary government (Note 5)	-	-	-	5,533
Internal balances (Note 5)	(2,342,002)	2,342,002	-	-
Prepaid expenses and other assets	85,870	-	85,870	-
Restricted assets (Note 8)	-	2,161,983	2,161,983	-
Investment in joint ventures (Note 14)	-	474,631	474,631	-
Land held for resale	1,500	-	1,500	-
Capital assets (Note 4):				
Assets not subject to depreciation	9,867,075	2,335,329	12,202,404	284,670
Assets subject to depreciation	16,893,566	34,578,024	51,471,590	1,146,136
Total assets	41,128,220	47,356,512	88,484,732	2,906,569
Deferred Outflows of Resources -				
Deferred outflows related to pensions (Notes 10 and 11)	3,691,201	391,013	4,082,214	-
Liabilities				
Accounts payable	3,434,836	1,260,578	4,695,414	51,657
Due to other governmental units	-	-	-	121,032
Due to component units (Note 5)	5,533	-	5,533	-
Due to primary government (Note 5)	-	-	-	3,273
Accrued liabilities and other	579,240	45,508	624,748	2,101
Provision for property tax refunds	223,410	15,616	239,026	7,953
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	218,137	10,058	228,195	-
Current portion of long-term debt (Note 7)	238,870	1,203,247	1,442,117	-
Due in more than one year:				
Compensated absences (Note 7)	654,410	30,179	684,589	-
Other noncurrent liabilities	-	520,000	520,000	-
Net OPEB obligation (Note 13)	15,224,886	2,400,797	17,625,683	-
Net pension liability (Notes 10 and 11)	86,020,588	6,282,109	92,302,697	-
Long-term debt (Note 7)	21,537	10,698,218	10,719,755	-
Total liabilities	106,621,447	22,466,310	129,087,757	186,016

The Notes to Financial Statements are an Integral Part of this Statement.

City of Lincoln Park, Michigan

Statement of Net Position (Continued)
June 30, 2017

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Deferred Inflows of Resources -				
Deferred inflows related to pensions (Notes 10 and 11)	$ 330,098	$ -	$ 330,098	$ -
Net Position				
Net investment in capital assets	26,500,234	25,027,291	51,527,525	1,430,806
Restricted for:				
Roads	2,891,316	-	2,891,316	-
Debt service	-	1,496,580	1,496,580	-
Sanitation	520,228	-	520,228	-
Grants	151,848	-	151,848	-
Drug forfeiture	765,750	-	765,750	-
Cable	552,417	-	552,417	-
Sewer replacement	-	650,000	650,000	-
Advertising	120,904	-	120,904	-
Construction code	109,006	-	109,006	-
Unrestricted	(93,743,827)	(1,892,656)	(95,636,483)	1,289,747
Total net position	**$ (62,132,124)**	**$ 25,281,215**	**$ (36,850,909)**	**$ 2,720,553**

The Notes to Financial Statements are an Integral Part of this Statement.

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 5,222,356	$ 431,270	$ -	$ -
District court	1,316,263	3,053,632	-	-
Public safety	13,975,596	684,687	253,690	14,012
Public works	6,310,606	3,536,497	2,817,252	-
Community and economic development	909,780	12,000	1,187,699	-
Recreation and culture	698,626	275,818	50,500	-
Interest on long-term debt	83,740	-	-	-
Total governmental activities	28,516,967	7,993,904	4,309,141	14,012
Business-type activities	9,113,207	9,191,853	250,180	-
Total primary government	**$ 37,630,174**	**$ 17,185,757**	**$ 4,559,321**	**$ 14,012**
Component units:				
Downtown Development Authority	$ 302,148	$ -	$ -	$ -
Economic Development Corporation	25,185	20,575	-	-
Brownfield Development Corporation	16,176	-	-	-
Library	332,776	3,175	-	-
Total component units	**$ 676,285**	**$ 23,750**	**$ -**	**$ -**

General revenue:
Property taxes
State-shared revenue
Investment income
Cable franchise fees
Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

The Notes to Financial Statements are an Integral Part of this Statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (4,791,086)	$ -	$ (4,791,086)	$ -
1,737,369	-	1,737,369	-
(13,023,207)	-	(13,023,207)	-
43,143	-	43,143	-
289,919	-	289,919	-
(372,308)	-	(372,308)	-
(83,740)	-	(83,740)	-
(16,199,910)	-	(16,199,910)	-
-	328,826	328,826	-
(16,199,910)	328,826	(15,871,084)	-
-	-	-	(302,148)
-	-	-	(4,610)
-	-	-	(16,176)
-	-	-	(329,601)
-	-	-	(652,535)
10,485,708	745,703	11,231,411	566,063
4,746,964	-	4,746,964	84,641
5,216	17,371	22,587	3,907
745,125	-	745,125	-
105,915	736,162	842,077	11,199
16,088,928	1,499,236	17,588,164	665,810
(110,982)	1,828,062	1,717,080	13,275
(62,021,142)	23,453,153	(38,567,989)	2,707,278
$ (62,132,124)	**$ 25,281,215**	**$ (36,850,909)**	**$ 2,720,553**

Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	CDBG Fund	Nonmajor Funds	Total
Assets				
Cash and cash equivalents (Note 3)	$ 7,276,462	$ 707,795	$ 4,598,098	$ 12,582,355
Receivables:				
Special assessments receivable	-	-	14,082	14,082
Customers	-	-	432,823	432,823
Other receivables	70,721	-	-	70,721
Due from other governmental units	1,689,035	47,986	582,312	2,319,333
Due from component units (Note 5)	273	-	-	273
Due from other funds (Note 5)	486,880	-	103,072	589,952
Prepaid expenses and other assets	84,633	597	6	85,236
Land held for resale	-	1,500	-	1,500
Total assets	**$ 9,608,004**	**$ 757,878**	**$ 5,730,393**	**$ 16,096,275**
Liabilities				
Accounts payable	$ 2,570,117	$ 34,074	$ 773,937	$ 3,378,128
Due to component units (Note 5)	5,533	-	-	5,533
Due to other funds (Note 5)	-	571,418	-	571,418
Advances from other funds (Note 5)	2,332,479	-	-	2,332,479
Accrued liabilities and other	563,095	538	5,312	568,945
Provision for property tax refunds	222,307	-	1,103	223,410
Total liabilities	5,693,531	606,030	780,352	7,079,913
Deferred Inflows of Resources -				
Unavailable revenue	-	12,283	14,082	26,365
Fund Balances				
Nonspendable - Prepaids	84,633	-	6	84,639
Restricted:				
Roads	1,640	-	2,889,676	2,891,316
Police	-	-	765,750	765,750
Grants	-	139,565	-	139,565
Advertising	-	-	120,904	120,904
Sanitation	-	-	520,228	520,228
Cable	-	-	552,411	552,411
Construction code	109,006	-	-	109,006
Assigned - Capital projects	-	-	86,984	86,984
Unassigned	3,719,194	-	-	3,719,194
Total fund balances	3,914,473	139,565	4,935,959	8,989,997
Total liabilities, deferred inflows of resources, and fund balances	**$ 9,608,004**	**$ 757,878**	**$ 5,730,393**	**$ 16,096,275**

Proprietary Funds
Statement of Net Position
June 30, 2017

	Enterprise Funds	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	$ 2,538,712	$ 1,199,624
Receivables	2,925,831	-
Due from component units	-	3,000
Due from other funds	49,749	28,053
Prepaid expenses and other assets	-	634
Total current assets	5,514,292	1,231,311
Noncurrent assets:		
Restricted assets	2,161,983	-
Advances to other funds	2,332,479	-
Investment in joint ventures	474,631	-
Capital assets:		
Assets not subject to depreciation	2,335,329	-
Assets subject to depreciation	34,578,024	1,280,463
Total noncurrent assets	41,882,446	1,280,463
Total assets	47,396,738	2,511,774
Deferred Outflows of Resources - Deferred outflows related to pensions	391,013	-
Liabilities		
Current liabilities:		
Accounts payable	1,260,578	56,708
Due to other funds	40,226	56,110
Accrued liabilities and other	45,508	5,557
Provision for property tax refunds	15,616	-
Compensated absences	10,058	-
Current portion of long-term debt	1,203,247	166,609
Total current liabilities	2,575,233	284,984
Noncurrent liabilities:		
Compensated absences	30,179	-
Net OPEB obligation	2,400,797	-
Net pension liability	6,282,109	-
Other noncurrent liabilities	520,000	-
Long-term debt	10,698,218	21,537
Total noncurrent liabilities	19,931,303	21,537
Total liabilities	22,506,536	306,521
Net Position		
Net investment in capital assets	25,027,291	1,092,317
Restricted:		
Debt service	1,496,580	-
Sewer replacement	650,000	-
Unrestricted	(1,892,656)	1,112,936
Total net position	**$ 25,281,215**	**$ 2,205,253**

Component Units
Statement of Net Position
June 30, 2017

	Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Library	Total
Assets					
Cash and cash equivalents	$ 745,631	$ 281,514	$ -	$ 378,071	$ 1,405,216
Receivables:					
Loans receivable	-	39,674	-	-	39,674
Due from other governmental units	-	-	-	25,340	25,340
Due from primary government	5,533	-	-	-	5,533
Capital assets:					
Assets not subject to depreciation	284,670	-	-	-	284,670
Assets subject to depreciation	1,146,136	-	-	-	1,146,136
Total assets	2,181,970	321,188	-	403,411	2,906,569
Liabilities					
Accounts payable	33,504	3,588	-	14,565	51,657
Due to other governmental units	121,032	-	-	-	121,032
Due to primary government	3,000	273	-	-	3,273
Accrued liabilities and other	737	224	-	1,140	2,101
Provision for property tax refunds	-	-	-	7,953	7,953
Total liabilities	158,273	4,085	-	23,658	186,016
Net Position					
Net investment in capital assets	1,430,806	-	-	-	1,430,806
Unrestricted	592,891	317,103	-	379,753	1,289,747
Total net position	**$ 2,023,697**	**$ 317,103**	**$ -**	**$ 379,753**	**$ 2,720,553**

The Notes to Financial Statements are an Integral Part of this Statement.

Component Units
Statement of Net Position
June 30, 2017

	Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Library	Total
Assets					
Cash and cash equivalents	$ 745,631	$ 281,514	$ -	$ 378,071	$ 1,405,216
Receivables:					
Loans receivable	-	39,674	-	-	39,674
Due from other governmental units	-	-	-	25,340	25,340
Due from primary government	5,533	-	-	-	5,533
Capital assets:					
Assets not subject to depreciation	284,670	-	-	-	284,670
Assets subject to depreciation	1,146,136	-	-	-	1,146,136
Total assets	2,181,970	321,188	-	403,411	2,906,569
Liabilities					
Accounts payable	33,504	3,588	-	14,565	51,657
Due to other governmental units	121,032	-	-	-	121,032
Due to primary government	3,000	273	-	-	3,273
Accrued liabilities and other	737	224	-	1,140	2,101
Provision for property tax refunds	-	-	-	7,953	7,953
Total liabilities	158,273	4,085	-	23,658	186,016
Net Position					
Net investment in capital assets	1,430,806	-	-	-	1,430,806
Unrestricted	592,891	317,103	-	379,753	1,289,747
Total net position	**$ 2,023,697**	**$ 317,103**	**$ -**	**$ 379,753**	**$ 2,720,553**

City of Lincoln Park, Michigan

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Downtown Development Authority	$ 302,148	$ -	$ -	$ -
Economic Development Corporation	25,185	20,575	-	-
Brownfield Development Corporation	16,176	-	-	-
Library	332,776	3,175	-	-
Total component units	**$ 676,285**	**$ 23,750**	**$ -**	**$ -**

General revenue:
- Property taxes
- State-shared revenue
- Investment income
- Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

The Notes to Financial Statements are an Integral Part of this Statement.

Component Units
Statement of Activities
Year Ended June 30, 2017

Net (Expense) Revenue and Changes in Net Position				
Downtown Development Authority	Economic Development Corporation	Brownfield Development Corporation	Library	Total
$ (302,148)	$ -	$ -	$ -	$ (302,148)
-	(4,610)	-	-	(4,610)
-	-	(16,176)	-	(16,176)
-	-	-	(329,601)	(329,601)
(302,148)	(4,610)	(16,176)	(329,601)	(652,535)
187,448	-	16,176	362,439	566,063
-	-	-	84,641	84,641
1,247	2,660	-	-	3,907
9,199	2,000	-	-	11,199
197,894	4,660	16,176	447,080	665,810
(104,254)	50	-	117,479	13,275
2,127,951	317,053	-	262,274	2,707,278
$ 2,023,697	**$ 317,103**	**$ -**	**$ 379,753**	**$ 2,720,553**

Note 1 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Lincoln Park, Michigan:

Reporting Entity

The City of Lincoln Park, Michigan's Charter calls for governance by an elected six-member council and the mayor. Effective July 1, 2014, the City was governed and administered by an emergency manager appointed pursuant to state statute by the governor of the State of Michigan. On December 21, 2015, the emergency manager recommended that the governor rectify the financial emergency and appoint a Receivership Transition Advisory Board for the City to monitor the affairs of the local government until the receivership is terminated. At June 30, 2017, the City was in receivership. Effective August 1, 2017, the City was released from receivership.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

Building Authority - The Building Authority is a City-created and City-directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority is governed by a board appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

The City of Lincoln Park Police Officers and Firefighters Retirement System - The City of Lincoln Park Police Officers and Firefighters Retirement System has been blended into the City's financial statements. The system is governed by a five-member pension board. The mayor and one City Council member sit on the board. Two members of the board are elected by the participants. In addition, the City Council appoints one city resident to the board. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operation of the retirement system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of eight individuals, is appointed by the City's mayor. The appointment is subject to approval by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council and the Mayor.

Brownfield Development Area - The Brownfield Development Area (the "Area") was created to facilitate the implementation of plans for the identification, treatment, and revitalization of an environmentally distressed area within the City designated as a Brownfield Development Area. The Area's governing body, which consists of nine individuals, is selected by the City Council and the Mayor.

Library Authority - The Library Authority was created to provide library services to the City's residents. The library board is governed by a five-member board that is appointed by the Mayor and City Council.

The component units above do not issue separate financial statements.

The City has excluded the Lincoln Park Housing Commission from this report because the City is not able to impose its will on the Lincoln Park Housing Commission.

Accounting and Reporting Principles

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Note 1 - Summary of Significant Accounting Policies (Continued)

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

Fund Accounting

The City accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types as follows:

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

Committed: Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

Assigned: Intent to spend resources on specific purposes expressed by the City Council or finance director, who is authorized by resolution approved by the City Council to make assignments.

Note 4 - Capital Assets (Continued)

	Balance July 1, 2016	Reclassification	Additions	Disposals	Balance June 30, 2017
Business-type Activities					
Capital assets not being depreciated:					
Land	$ 16,540	$ -	$ -	$ -	$ 16,540
Construction in progress	1,283,893	-	1,034,896	-	2,318,789
Subtotal	1,300,433	-	1,034,896	-	2,335,329
Capital assets being depreciated:					
Buildings and improvements	1,683,467	-	-	-	1,683,467
Machinery and equipment	6,224,235	-	-	-	6,224,235
Water and sewer distribution systems	54,126,810	-	2,297,831	-	56,424,641
Subtotal	62,034,512	-	2,297,831	-	64,332,343
Accumulated depreciation:					
Buildings and improvements	1,528,490	-	14,994	-	1,543,484
Machinery and equipment	2,279,936	-	140,905	-	2,420,841
Water and sewer distribution systems	24,518,991	-	1,271,003	-	25,789,994
Subtotal	28,327,417	-	1,426,902	-	29,754,319
Net capital assets being depreciated	33,707,095	-	870,929	-	34,578,024
Net capital assets	$ 35,007,528	$ -	$ 1,905,825	$ -	$ 36,913,353

	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Component Units					
Capital assets not being depreciated - Land	$ 284,670	$ -	$ -	$ -	$ 284,670
Capital assets being depreciated:					
Infrastructure	1,203,456	-	-	-	1,203,456
Equipment	330,156	-	-	-	330,156
Vehicles	25,134	-	-	-	25,134
Subtotal	1,558,746	-	-	-	1,558,746
Accumulated depreciation:					
Infrastructure	201,739	-	48,138	-	249,877
Equipment	116,321	-	21,278	-	137,599
Vehicles	25,134	-	-	-	25,134
Subtotal	343,194	-	69,416	-	412,610
Net capital assets being depreciated	1,215,552	-	(69,416)	-	1,146,136
Net capital assets	$ 1,500,222	$ -	$ (69,416)	$ -	$ 1,430,806

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	$ 277,174
Public safety	185,337
Public works	3,145,379
Economic development	42,810
Internal service fund depreciation is charged to the various functions based on their usage of the asset	274,624
Total governmental activities	$ 3,925,324
Business-type activities - Water and sewer	$ 1,426,902
Component unit activities - DDA	$ 69,416

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Community Development Block Grant Fund	$ 486,880
Water and Sewer Fund	Community Development Block Grant Fund	49,749
Nonmajor governmental funds	Community Development Block Grant Fund	7,148
	Water and Sewer Fund	39,814
	Internal service fund	56,110
	Total nonmajor governmental funds	103,072
Internal Service Fund	Community Development Block Grant Fund	27,641
	Water and Sewer Fund	412
	Total internal service fund	28,053
	Total	$ 667,754

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Water and Sewer Fund	General Fund	$ 2,332,479

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Downtown Development Authority	General Fund	$ 5,533
General Fund	Economic Development Corporation	$ 273
Internal service fund	Downtown Development Corporation	$ 3,000

Interfund Transfers

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Nonmajor governmental fund - Capital Improvement Fund	$ 180,000
Nonmajor governmental fund - Major Streets Fund	Nonmajor governmental fund - Local Streets Fund	800,000
	Total	$ 980,000

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

The long-term advance from the Water and Sewer Fund to the General Fund represents monies advanced to provide cash flow for normal operating expenditures. The advance is to be repaid, with interest of 0.5 percent, over 10 years.

The interfund transfer reported from the Major Streets Fund to the Local Streets Fund for $800,000 was to finance a portion of the cost of the City's Local Streets Fund road programs. Additionally, the interfund transfers from the General Fund to the Capital Improvement Fund were to finance the cost of the City's road programs.

Note 16 - Upcoming Accounting Pronouncements (Continued)

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2018 fiscal year.

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2018 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020 fiscal year.

Other Supplemental Information
Combining Statement of Net Position
Internal Service Funds
June 30, 2017

	Motor Pool Fund	Information Technology Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 1,042,658	$ 156,966	$ 1,199,624
Due from component units	3,000	-	3,000
Due from other funds	412	27,641	28,053
Prepaid expenses and other assets	-	634	634
Total current assets	1,046,070	185,241	1,231,311
Noncurrent assets - Capital assets - Assets subject to depreciation	1,265,305	15,158	1,280,463
Total assets	2,311,375	200,399	2,511,774
Liabilities			
Current liabilities:			
Accounts payable	56,480	228	56,708
Due to other funds	56,110	-	56,110
Accrued liabilities and other	5,557	-	5,557
Current portion of long-term debt	166,609	-	166,609
Total current liabilities	284,756	228	284,984
Noncurrent liabilities - Long-term debt	21,537	-	21,537
Total liabilities	306,293	228	306,521
Net Position			
Net investment in capital assets	1,077,159	15,158	1,092,317
Unrestricted	927,923	185,013	1,112,936
Total net position	**$ 2,005,082**	**$ 200,171**	**$ 2,205,253**