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CITY OF HUDSON
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

PHILIP R. RUBLEY
-- Certified Public Accountant --
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CITY OF HUDSON
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

**CITY OF HUDSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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October 5, 2016

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members
of the City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247**

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 Hudson, Michigan 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 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 risk 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

**Honorable Mayor and Members
of the City Council
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October 5, 2016**

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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudson, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on (pages 4-13 and 43-49) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

**Honorable Mayor and Members
of the City Council
City of Hudson
October 5, 2016**

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 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 5, 2016 on our consideration of the City of Hudson, Michigan'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 City of Hudson, Michigan's internal control over financial reporting and compliance.

Respectfully Submitted,


Philip R. Rubley, CPA

PRR/cab

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2016

Using This Annual Report

As management of City of Hudson, Michigan, we offer readers of City of Hudson, Michigan's these financial statements. This narrative overview and analysis of the financial activities of City of Hudson, Michigan is for the fiscal year ended June 30, 2016.

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of City of Hudson, Michigan's government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Financial Highlights

The assets of the City of Hudson, Michigan exceeded its liabilities at the end of the fiscal year by \$11,103,105 (net assets), of this amount \$973,162 represents unrestricted net assets which may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$2,840,628, governmental activities increased by \$2,821,961 and business-type activities increased by \$18,667. Government activities increased over the prior year, mainly attributable to the transfer from the LDFA (Local Development Finance Authority) assets of \$2,648,782. Operations reflected the additional increase of \$173,179, compared to the prior year, the increase was \$226,132.

Business type activities increased by \$18,667, this is mainly attributable to transfers in above prior year transfers of \$79,676 and a increase in charges for services of \$78,199.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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.

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

The government-wide financial statements can be found on (pages 14-16) of this report.

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. City of Hudson, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of City of Hudson, Michigan 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 financial 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, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

City of Hudson, Michigan maintains fifteen individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The General Fund, Ambulance, Income Tax, Fire, Major and Local Streets Funds are considered to be major funds.

City of Hudson, Michigan adopts an annual appropriated budget for the General Fund, Ambulance, Income Tax, Fire, Major and Local Street Funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with budget.

The basic governmental fund financial statements can be found on (pages 17-20) of this report.

Proprietary Fund. City of Hudson, Michigan maintains one type of Proprietary Fund. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. City of Hudson, Michigan uses an Enterprise Fund to account for its Sewer Fund and Water Fund.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Fund financial statements provide separate information for the Sewer Fund and Water Fund shown as the (Utilities Fund) which is considered to be major funds of City of Hudson, Michigan.

The basic Proprietary financial statements can be found on (pages 21-25) of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of 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 of Hudson, Michigan's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes 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.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 of some times that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, public safety, public works, recreation and culture, community and economic development and other functions.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The assets of the City exceeded the liabilities by \$11,103,105 at the end of the fiscal year.

By far the largest portion of the City's net assets (85.35%) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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CITY OF HUDSON, MICHIGAN NET ASSETS

Governmental Activities

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current and Other Assets	\$1,575,048	\$1,619,857
Capital Assets	<u>6,852,633</u>	<u>4,002,085</u>
Total Assets	<u>8,427,681</u>	<u>5,621,942</u>
<u>Liabilities</u>		
Long-Term Liabilities Outstanding	111,416	135,871
Other Liabilities	<u>81,307</u>	<u>73,074</u>
Total Liabilities	<u>192,723</u>	<u>208,945</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	6,769,234	3,899,270
Restricted	638,620	617,418
Unrestricted	<u>827,104</u>	<u>896,309</u>
Total Net Assets	<u>\$8,234,958</u>	<u>\$5,412,997</u>

Business Activities

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current and Other Assets	\$ 181,263	\$ 163,021
Capital Assets	<u>3,393,876</u>	<u>3,506,235</u>
Total Assets	<u>3,575,139</u>	<u>3,669,256</u>
<u>Liabilities</u>		
Long-Term Liabilities Outstanding	686,665	781,665
Other Liabilities	<u>20,327</u>	<u>38,111</u>
Total Liabilities	<u>706,992</u>	<u>819,776</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	2,707,211	2,724,500
Restricted	14,878	14,878
Unrestricted	<u>146,058</u>	<u>110,102</u>
Total Net Assets	<u>\$2,868,147</u>	<u>\$2,849,480</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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CITY OF HUDSON, MICHIGAN NET ASSETS

Governmental Activities

<u>Revenue</u>	<u>2016</u>	<u>2015</u>
Program Revenue:		
Charges for Services	\$1,273,652	\$1,143,609
Operating Grants and Contributions	664,367	653,167
Capital Grants and Contributions	453,170	---
General Revenue:		
Forgiveness of Debt - LDFA	---	168,740
Property Taxes/Special Assessments	1,025,051	1,130,498
Grants and Contributions Not Restricted To Specific Program	279,318	279,771
Earnings and Rentals	29,995	33,407
Transfer Assets from LDFA	2,648,782	---
Gain on Sale of Land	8,952	---
Total Revenue	<u>6,383,287</u>	<u>3,409,192</u>
 <u>Expenses</u>		
General Government	637,326	539,678
Public Safety	1,080,660	1,030,627
Public Works	836,741	846,490
Community and Economic Development	217,439	864
Recreation and Culture	101,042	129,298
Interest on Long-Term Debt	3,242	1,783
Other Functions	684,876	634,320
Total Expenses	<u>3,561,326</u>	<u>3,183,060</u>
 Increase In Net Assets	 2,821,961	 226,132
Net Assets Beginning of Year	<u>5,412,997</u>	<u>5,186,865</u>
Net Assets End of Year	<u>\$8,234,958</u>	<u>\$5,412,997</u>

A portion of the City of Hudson, Michigan's net assets for governmental activities of \$638,620 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$827,104 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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CITY OF HUDSON, MICHIGAN NET ASSETS

Business-Type Activities

	<u>2016</u>	<u>2015</u>
<u>Revenue</u>		
Program Revenue:		
Charges for Services	\$ 635,706	\$ 557,507
General Revenue:		
Interest Income	3	6
Grants - State	<u>105,823</u>	<u>---</u>
Total Revenue	<u>741,532</u>	<u>557,513</u>
<u>Expenses</u>		
Interest on Long-Term Debt	17,773	20,116
Utilities Expenses	<u>923,451</u>	<u>776,194</u>
Total Expenses	<u>941,224</u>	<u>796,310</u>
Increase (Decrease) In Net Assets Before Transfers	(199,692)	(238,797)
Transfers In	<u>218,359</u>	<u>138,683</u>
Increase (Decrease) In Net Assets	18,667	(100,114)
Net Assets Beginning of Year	<u>2,849,480</u>	<u>2,949,594</u>
Net Assets End of Year	<u>\$2,868,147</u>	<u>\$2,849,480</u>

A portion of the City of Hudson, Michigan's net assets for business-type activities of \$14,878 represents resources that are restricted. \$146,058 is available for ongoing obligations of the utilities.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2016

CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Component Unit Activities</u>			
	<u>DDA</u> <u>2016</u>	<u>DDA</u> <u>2015</u>	<u>LDFA</u> <u>2016</u>	<u>LDFA</u> <u>2015</u>
<u>Assets</u>				
Current and Other Assets	\$ 45,280	\$ 64,542	\$ ---	\$ ---
Capital Assets	<u>226,430</u>	<u>146,288</u>	<u>---</u>	<u>2,648,782</u>
Total Assets	<u>\$271,710</u>	<u>\$210,830</u>	<u>\$ ---</u>	<u>\$2,648,782</u>
<u>Net Assets</u>				
Invested in Capital Assets	\$226,430	\$146,288	\$ ---	\$2,648,782
Unrestricted	<u>45,280</u>	<u>64,542</u>	<u>---</u>	<u>---</u>
Total Net Assets	<u>\$271,710</u>	<u>\$210,830</u>	<u>\$ ---</u>	<u>\$2,648,782</u>
<u>Revenue</u>				
Community Development:				
Property Taxes	\$ 69,040	\$ 66,520	\$ ---	\$ ---
Interest Income	12	10	---	3
Rental Income	<u>3,600</u>	<u>3,600</u>	<u>---</u>	<u>---</u>
Total Revenue	<u>72,652</u>	<u>70,130</u>	<u>---</u>	<u>3</u>
<u>Expenses</u>				
Expenditures	11,772	21,669	---	304,924
Transfers	<u>---</u>	<u>---</u>	<u>2,648,782</u>	<u>---</u>
Total Expenses	<u>11,772</u>	<u>21,669</u>	<u>2,648,782</u>	<u>304,924</u>
Increase (Decrease) in Net Assets	60,880	48,461	(2,648,782)	(304,921)
Net Assets Beginning of Year	<u>210,830</u>	<u>162,369</u>	<u>2,648,782</u>	<u>2,953,703</u>
Net Assets End of Year	<u>\$271,710</u>	<u>\$210,830</u>	<u>\$ ---</u>	<u>\$2,648,782</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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Government Activities

Governmental activities increased the City's net assets by \$2,821,961 in the current fiscal year; by comparison, in the prior year, governmental activities net assets increased by \$226,132.

Key elements in the change of the current year:

- Transfer of fix assets from LDFA of \$2,648,782.
- Increase in charges for services of \$130,043.
- Property taxes and assessments decreased by \$105,447.
- Grant revenue increased by \$453,170.
- Increase in expenditures for community and economic development of \$216,575.
- Decrease in expenses for recreation and culture of \$28,256.
- Increase in expenses for general government of \$97,648.

Business-Type Activities

As mention under the financial highlights above the business-type activities increased by \$18,667 in the current fiscal year; by comparison, in the prior year, business-type activities net assets decreased by \$100,114.

Key elements for change include:

- Transfer in to support operations increased by \$79,676.
- Increase in charge for services of \$78,199.
- Increase in state grant revenue of \$105,823.
- Expenditure for operations including water study increased by \$147,257.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
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Financial Analysis of City's Funds

The City uses fund accounting to insure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As mentioned in the beginning of the Discussion and Analysis the focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. The unassigned fund balance may serve as a useful indicator of the City'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 \$1,277,529, a decrease of \$76,745, in comparison to the prior year. Approximately 42.31% of this total amount is unassigned fund balances, which is available for spending at the City's discretion.

The General Fund reported a decrease in fund balance of \$27,269 over the prior year, resulting in an unassigned fund balance of \$337,336. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 19.76% of the total general fund expenditures and transfers out.

The decrease of \$27,269 is mainly the result of a decrease in transfer in from the previous year of \$95,000. Revenues decreased by \$11,551 outside of grant revenues and expenditures increased \$30,191 outside of grant paid expenditures.

The Ambulance Fund reported an increase in fund balance of \$67,372 over the prior year. Charges for services rendered increased by \$138,981 and expenditures increased by \$43,032. Unassigned fund balance ended at \$121,711.

The Income Tax Fund reported a decrease in fund balance of \$57,473 over the prior year. Tax collection revenue decreased by \$87,373 and insurance revenue received was \$89,741, reflecting a slight increase of \$2,129 over the prior year. Overall expenditures and transfers out for capital improvement were less by \$17,583 over the prior year. Unassigned fund balance ended at \$179,056.

The Fire Fund reported a decrease in fund balance of \$5,415. Revenues decreased by \$2,186 and expenditures for capital outlay decreased by \$13,454 and service costs increased by \$14,795. Unassigned fund balance ended at \$17,794.

The Major Street Fund reported a decrease in fund balance of \$25,936. Revenues increased from grant revenue of \$239,450, and capital improvements increased by \$313,703. Unassigned fund balance ended at \$230,012.

The Local Street Fund reported a decrease in fund balance of \$20,067. Transfers in increased by \$100,500 and expenditures for capital improvements increased by \$225,490. Unassigned fund balance ended at \$200,001.

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Proprietary Fund

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

Unrestricted net assets of the utilities funds at the end of the year amounted to \$144,783, for the current fiscal year and \$109,481 for the prior year. The utilities fund had an increase in total net assets for the year of \$17,943. Most of the increase is because of grant revenue received of \$105,823 and charge for services increased.

General Fund Budgetary Highlights

There were minor differences between the original and amended budget of about \$7,583 see (pages 44-45).

For the fiscal year of 2016, the budgetary estimate for the net change in fund balance was a decrease of \$7,583; the actual was a decrease of \$27,269 for a decrease of \$19,686.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$10,246,509 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the City's investment in capital assets for the current year was \$3,389,851. See (page 34) for types of capital assets purchased.

Economic Factors And Next Year's Budget And Rates

The City's budget for 2016-2017 year has taken inconsideration, the economic condition and its effect on revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

The following factors were considered in preparing the City's budget.

- To maintain services to the community and maintain an adequate fund balance in reserve.
- To be aware of economic conditions, sources of revenue and potential changes within the community.
- To continue to improve infrastructure.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 121 N. Church Street, Hudson, Michigan 49247.

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2016

	Governmental Activities	Business-Type Activities	Total	Component Units
<u>Assets</u>				
Cash and Equivalents	\$1,294,882	\$ 1,275	\$ 1,296,157	\$ 45,280
Investments	43,427	----	43,427	----
Receivables - Net	225,753	150,619	376,372	----
Inventory	3,951	14,068	18,019	----
Prepaid Items and Other Assets	7,035	423	7,458	----
Restricted Cash	----	14,878	14,878	----
Capital Assets Not Being Depreciated	261,589	33,600	295,189	30,000
Capital Assets Being Depreciated - Net	<u>6,591,044</u>	<u>3,360,276</u>	<u>9,951,320</u>	<u>196,430</u>
Total Assets	<u>8,427,681</u>	<u>3,575,139</u>	<u>12,002,820</u>	<u>271,710</u>
<u>Liabilities</u>				
Accounts Payable and Accrued Expenses	81,307	20,327	101,634	----
Long-Term Liabilities:				
Due Within One Year	48,023	95,000	143,023	----
Due In More Than One Year	<u>63,393</u>	<u>591,665</u>	<u>655,058</u>	<u>----</u>
Total Liabilities	<u>192,723</u>	<u>706,992</u>	<u>899,715</u>	<u>----</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	6,769,234	2,707,211	9,476,445	226,430
Restricted	638,620	14,878	653,498	----
Unrestricted	<u>827,104</u>	<u>146,058</u>	<u>973,162</u>	<u>45,280</u>
Total Net Assets	<u>\$8,234,958</u>	<u>\$2,868,147</u>	<u>\$11,103,105</u>	<u>\$ 271,710</u>

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
Primary Government					
<u>Governmental Activities:</u>					
General Government	\$ 637,326	\$ 612,393	\$ ---	\$ ---	\$ (24,933)
Public Safety	1,080,660	508,212	54,794	---	(517,654)
Public Works	836,741	125,567	242,925	239,450	(228,799)
Community and Economic Development	217,439	---	---	213,720	(3,719)
Recreation and Culture	101,042	27,480	14,735	---	(58,827)
Interest on Long-Term Debt	3,242	---	---	---	(3,242)
Other Functions	684,876	---	351,913	---	(332,963)
Total Governmental Activities	<u>3,561,326</u>	<u>1,273,652</u>	<u>664,367</u>	<u>453,170</u>	<u>(1,170,137)</u>
<u>Business-Type Activities:</u>					
Utilities	923,451	635,706	324,182	---	36,437
Interest on Long-Term Debt	17,773	---	---	---	(17,773)
Total Business-Type Activities	<u>941,224</u>	<u>635,706</u>	<u>324,182</u>	<u>---</u>	<u>18,664</u>
Total Primary Government	<u>\$4,502,550</u>	<u>\$1,909,358</u>	<u>\$988,549</u>	<u>\$453,170</u>	<u>\$ (1,151,473)</u>
<u>Component Units:</u>					
Local Development Finance Authority	---	---	---	---	---
Downtown Development Authority	11,772	---	---	---	(11,772)
Total Component Unit	<u>\$ 11,772</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (11,772)</u>

CITY OF HUDSON, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2016

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Changes In Net Assets</u>				
Net (Expense) Revenue	\$(1,170,137)	\$ 18,664	\$(1,151,473)	\$ (11,772)
General Revenues (Expense):				
Tax Collections	1,025,051	---	1,025,051	69,040
Grants and Contributions Not Restricted To Specific Programs	279,318	---	279,318	---
Earnings and Rentals	29,995	3	29,998	3,612
Gain on Sale of Land	8,952	---	8,952	---
Transfer of Assets - LDFA	<u>2,648,782</u>	---	<u>2,648,782</u>	<u>(2,648,782)</u>
Total General Revenues, Contributions and Transfers	<u>3,992,098</u>	<u>3</u>	<u>3,992,101</u>	<u>(2,576,130)</u>
Change In Net Assets (Decrease)	2,821,961	18,667	2,840,628	(2,587,902)
Net Assets, Beginning of Year	<u>5,412,997</u>	<u>2,849,480</u>	<u>8,262,477</u>	<u>2,859,612</u>
Net Assets, End of Year	<u>\$ 8,234,958</u>	<u>\$2,868,147</u>	<u>\$11,103,105</u>	<u>\$ 271,710</u>

CITY OF HUDSON, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2016

	<u>General</u> <u>Fund</u>	<u>Ambulance</u> <u>Fund</u>	<u>Income Tax</u> <u>Fund</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$369,563	\$ 50,063	\$179,523
Investments	---	---	---
Prepaid Expenses	6,738	---	---
Receivables - Net	33,068	81,007	19,827
Receivable from Other Governments	---	---	---
Inventories	3,951	---	---
Total Assets	<u>\$413,320</u>	<u>\$131,070</u>	<u>\$199,350</u>
<u>Deferred Inflow of Resources</u>			
Property Taxes	\$ 2,222	\$ 2,436	\$ 19,827
<u>Liabilities</u>			
Accounts Payable/ Accrued Liabilities	<u>58,852</u>	<u>6,923</u>	<u>467</u>
Total Liabilities	<u>58,852</u>	<u>6,923</u>	<u>467</u>
<u>Fund Balances</u>			
Non-Spendable:			
Inventories	3,951	---	---
Prepaid Expenses	6,738	---	---
Restricted For:			
Public Safety - Ambulance	---	121,711	---
Public Safety - Fire	---	---	---
Public Safety - Police	4,221	---	---
Public Works - Roads	---	---	---
Recreation and Culture	---	---	---
Cemetery and Perpetual Care	---	---	---
Unassigned	<u>337,336</u>	<u>---</u>	<u>179,056</u>
Total Fund Balances	<u>352,246</u>	<u>121,711</u>	<u>179,056</u>
Total Liabilities and Fund Balances	<u>\$413,320</u>	<u>\$131,070</u>	<u>\$199,350</u>

The notes to financial statements are an integral part of this statement.

<u>Fire Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$24,463	\$207,106	\$174,703	\$138,928	\$1,144,349
---	---	---	43,427	43,427
297	---	---	---	7,035
---	---	---	11	133,913
---	24,444	25,838	---	50,282
---	---	---	---	3,951
<u>\$24,760</u>	<u>\$231,550</u>	<u>\$200,541</u>	<u>\$182,366</u>	<u>\$1,382,957</u>
\$ ---	\$ ---	\$ ---	\$ ---	\$ 24,485
6,966	1,538	540	5,657	80,943
<u>6,966</u>	<u>1,538</u>	<u>540</u>	<u>5,657</u>	<u>80,943</u>
---	---	---	---	3,951
297	---	---	---	7,035
---	---	---	---	121,711
17,497	---	---	---	17,497
---	---	---	---	4,221
---	230,102	200,001	---	430,013
---	---	---	119,973	119,973
---	---	---	32,664	32,664
---	---	---	24,072	540,464
<u>17,794</u>	<u>230,012</u>	<u>200,001</u>	<u>176,709</u>	<u>1,277,529</u>
<u>\$24,760</u>	<u>\$231,550</u>	<u>\$200,541</u>	<u>\$182,366</u>	<u>\$1,382,957</u>

CITY OF HUDSON, MICHIGAN
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
June 30, 2016

Fund Balances – Total Governmental Funds \$ 1,277,529

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

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

Add:	Capital Assets	15,204,380
(Deduct):	Accumulated Depreciation	(8,345,699)
(Deduct):	Cost of Land Sold	(6,048)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add:	Net assets of governmental activities accounted for in the internal service fund.	150,939
-------------	---	---------

Certain liabilities, such as notes payable, are not due and payable in the current period and therefore are not reported in the funds.

(Deduct):	Notes Payable	(83,399)
(Deduct):	Compensated Absences Long-term	(28,017)
(Deduct):	Accrued Interest Payable	(158)

Revenue that has been billed as a receivable, but not collected until later years, was not reported in the funds.

Add:	Deferred Inflow of Resources - Property Taxes	24,485
-------------	---	--------

Accounts receivables are included in the funds statement if received within 60 days, but for the government-wide statement of net assets all receivables are included

Add:	State Shared Revenues	<u>40,946</u>
-------------	-----------------------	---------------

Net Assets of Governmental Activities \$ 8,234,958

CITY OF HUDSON, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes In Fund Balances
For The Year Ended June 30, 2016

	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Income Tax Fund</u>
<u>Revenues</u>			
Taxes	\$ 524,706	\$ 49,204	\$ 460,866
Intergovernmental	238,372	---	---
Licenses and Permits	28,223	---	---
Fines and Forfeitures	8,207	---	---
Charges for Services	594,923	499,498	---
Interest and Rentals	14,122	119	209
Contributions from Local Units	---	---	---
Other	9,453	---	89,741
Grants	216,637	---	---
Contributions	---	---	---
	<u>1,634,643</u>	<u>548,821</u>	<u>550,816</u>
<u>Expenditures</u>			
Current:			
General Government	340,485	---	111,671
Public Safety	303,513	481,449	---
Public Works	558,807	---	---
Community Economic Development	217,439	---	---
Recreation and Culture	---	---	---
Capital Outlay	123,921	---	5,489
Other Functions	114,604	---	---
Debt Service:			
Principal Payments	---	19,416	---
Interest Payments	---	3,084	---
	<u>1,658,769</u>	<u>503,949</u>	<u>117,160</u>
Excess of Revenue Over (Under) Expenditures	<u>(24,126)</u>	<u>44,872</u>	<u>433,656</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	45,000	22,500	---
Transfers Out	(48,143)	---	(491,129)
Total Other Financing Sources (Uses)	<u>(3,143)</u>	<u>22,500</u>	<u>(491,129)</u>
Net Change In Fund Balances (Decrease)	(27,269)	67,372	(57,473)
Fund Balances – Beginning of Year	<u>379,515</u>	<u>54,339</u>	<u>236,529</u>
Fund Balances – End of Year	<u>\$ 352,246</u>	<u>\$121,711</u>	<u>\$ 179,056</u>

The notes to financial statements are an integral part of this statement.

<u>Fire Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ ---	\$ ---	\$ ---	\$ ---	\$1,034,776
---	149,966	90,959	---	479,297
---	---	---	---	28,223
---	---	---	---	8,207
---	---	---	39,049	1,133,470
9	69	8	15,459	29,995
53,287	---	---	---	53,287
15	---	---	19,543	118,752
---	239,450	---	---	456,087
590	---	---	14,735	15,325
<u>53,901</u>	<u>389,485</u>	<u>90,967</u>	<u>88,786</u>	<u>3,357,419</u>
---	---	---	35,825	487,981
82,664	---	---	---	867,626
---	110,718	74,544	---	744,069
---	---	---	---	217,439
---	---	---	79,811	79,811
1,652	313,703	225,490	11,520	681,775
---	---	---	---	114,604
---	---	---	---	19,416
---	---	---	---	3,084
<u>84,316</u>	<u>424,421</u>	<u>300,034</u>	<u>127,156</u>	<u>3,215,805</u>
<u>(30,415)</u>	<u>(34,936)</u>	<u>(209,067)</u>	<u>(38,370)</u>	<u>141,614</u>
25,000	40,000	189,000	30,413	351,913
---	(31,000)	---	---	(570,272)
<u>25,000</u>	<u>9,000</u>	<u>189,000</u>	<u>30,413</u>	<u>(218,359)</u>
(5,415)	(25,936)	(20,067)	(7,957)	(76,745)
<u>23,209</u>	<u>255,948</u>	<u>220,068</u>	<u>184,666</u>	<u>1,354,274</u>
<u>\$ 17,794</u>	<u>\$230,012</u>	<u>\$ 200,001</u>	<u>\$176,709</u>	<u>\$1,277,529</u>

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
June 30, 2016

Net Change In Fund Balances – Total Governmental Funds (Decrease) \$ (76,745)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add:	Capital Outlay	681,775
Add:	Capital Assets - Transferred from LDFA	2,648,782
(Deduct):	Depreciation Expense	(473,961)
(Deduct):	Cost of Land Sold	(6,048)

Note proceeds provide current financial resources to governmental funds in the period issued, but issuing notes increase long-term liabilities in the statement of net assets. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add:	Principal payments on long-term liabilities	19,416
-------------	---	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

(Deduct):	Increase in interest payable on notes	(158)
Add:	Decrease in compensated absences long-term	5,039

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

(Deduct):	Decrease in net assets of governmental activities accounted for in the internal service fund	(7,360)
------------------	--	---------

Revenue deferred on the governmental funds report, which has been charged to receivable and thus income on the statement of activities.	(9,725)
---	---------

Accounts receivable are included in the funds statement if received within 60 days but for the government-wide statement of net assets all receivable are included	<u>40,946</u>
--	---------------

Change In Net Assets Of Governmental Activities	<u>\$2,821,961</u>
--	---------------------------

CITY OF HUDSON, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2016

	Business-Type Activities - Enterprise Funds	Governmental Activities
Assets	Utilities Fund	Internal Service Fund
Current Assets:		
Cash and Cash Equivalents	\$ ---	\$149,809
Accounts Receivable	150,619	612
Inventory	14,068	---
Prepaid Interest	423	---
Non-Current Assets:		
Restricted Cash	14,878	---
Property and Equipment - Net	<u>3,393,876</u>	<u>101,080</u>
Total Non-Current Assets	<u>3,408,754</u>	<u>101,080</u>
Total Assets	<u>\$3,573,864</u>	<u>\$251,501</u>
 Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities/Deposits	\$ 20,127	206
Accrued Equipment Rent	200	---
Bonds Payable, Current Portion	<u>95,000</u>	<u>---</u>
Total Current Liabilities	<u>115,327</u>	<u>206</u>
Non-Current Liabilities:		
Bonds Payable	<u>591,665</u>	<u>---</u>
Total Non-Current Liabilities	<u>591,665</u>	<u>---</u>
Total Liabilities	<u>706,992</u>	<u>206</u>
 Net Assets		
Invested in Capital Assets, Net of Related Debt	2,707,211	101,080
Restricted for Replacement	14,878	---
Unrestricted	<u>144,783</u>	<u>150,215</u>
Total Net Assets	2,866,872	<u>\$251,295</u>
 Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>1,275</u>	
 Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	<u>\$2,868,147</u>	

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
<u>Operating Revenues</u>		
Charges for Services	\$ 607,743	\$ 74,503
<u>Operating Expenses</u>		
Salaries and Wages	103,626	---
Fringe Benefits	49,798	---
Office Expenses	201,710	12,600
Contractual Services	151,317	200
Supplies and Materials	44,952	8,677
Utilities	87,177	---
Depreciation	231,506	28,106
Repairs/Maintenance	48,824	18,995
Other Expenses	4,541	---
Total Operating Expenses	923,451	68,578
Operating Income (Loss)	(315,708)	5,925
<u>Non-Operating Revenues (Expenses)</u>		
Investment Income	3	39
Interest Expense	(17,773)	---
Other - Miscellaneous	27,239	---
Grant Revenue - State	105,823	---
Total Non-Operating Revenues (Expenses)	115,292	39
<u>Other Financing Sources</u>		
Transfer In	218,359	---
Total Other Financing Sources	218,359	---
Income	17,943	5,964
Net Assets, Beginning of Year	2,848,929	245,331
Net Assets, End of Year	\$2,866,872	\$251,295

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities
Proprietary Funds
June 30, 2016

Change In Net Assets – All Enterprise Funds \$17,943

An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

724

Change In Net Assets Of Business-Type Activities

\$18,667

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2016

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
<u>Cash Flows From Operating Activities</u>		
Cash Received from Customers	\$ 617,909	\$ 76,835
Cash Payment to Suppliers For Goods and Services/Employees	<u>(709,593)</u>	<u>(40,266)</u>
Net Cash Provided (Used)	<u>(91,684)</u>	<u>36,569</u>
 <u>Cash Flows From Capital and</u> <u>Related Financing Activities</u>		
Grant Revenue - State	105,823	---
Purchase of Capital Assets	(119,147)	---
Bond Principal Payments	(95,000)	---
Bond Interest Payments	<u>(18,354)</u>	<u>---</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(126,678)</u>	<u>---</u>
 <u>Cash Flows From Investing Activities</u>		
Investment Income	3	39
Transfers from Other Funds	<u>218,359</u>	<u>---</u>
Net Cash Provided (Used) by Investing Activities	<u>218,362</u>	<u>39</u>
 <u>Net Increase (Decrease) in Cash and</u> <u>Cash Equivalents</u>		
	---	36,608
Cash and Cash Equivalents, Beginning of Year	<u>14,878</u>	<u>113,201</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,878</u>	<u>\$149,809</u>
 <u>Reconciliation to Statement of Net Assets</u>		
Cash and Cash Equivalents	\$ ---	\$149,809
Restricted Cash and Cash Equivalents	<u>14,878</u>	<u>---</u>
	<u>\$ 14,878</u>	<u>\$149,809</u>

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>		
Income (Loss)	\$(315,708)	\$ 5,925
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	231,506	28,106
Changes in Assets and Liabilities:		
Accounts Receivable, and Current Assets	(16,967)	2,332
Accounts Payable and Accrued Liabilities	<u>(18,335)</u>	<u>206</u>
Net Cash Provided (Used) by Operating Activities	<u>(119,504)</u>	<u>36,569</u>
<u>Cash Flows from Capital Activities</u>		
Acquisition of Capital Assets	<u>(119,147)</u>	<u>---</u>
Net Cash (Used) from Capital Activities	<u>(119,147)</u>	<u>---</u>
<u>Cash Flows From Financing Activities:</u>		
Grant Revenue - State	105,823	39
Interest Income	3	<u>---</u>
Principal Paid on Bonds	(95,000)	<u>---</u>
Interest Paid on Bonds	(17,773)	<u>---</u>
Miscellaneous Income	27,239	<u>---</u>
Transfer from Other Funds	<u>218,359</u>	<u>---</u>
Net Cash (Used) from Financing Activities	<u>238,651</u>	<u>39</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>---</u>	36,608
Cash and Cash Equivalents, Beginning of Year	<u>14,878</u>	<u>113,201</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,878</u>	<u>\$149,809</u>
<u>Reconciliation to Statement of Net Assets</u>		
Cash and Cash Equivalents	\$ ---	\$149,809
Restricted Cash and Cash Equivalents	<u>14,878</u>	<u>---</u>
	<u>\$ 14,878</u>	<u>\$149,809</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of City Operations

The City of Hudson, Michigan operates under a Council form of government, with a City Manager and provides services to its residents in many areas including public safety, public works, community and economic development and human services.

The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

The accompanying financial statements present the government and its component units, for which the government is considered financially accountable.

The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

Discretely Presented Component Units

The local development Finance Authority of the City of Hudson, Michigan (LDFA) is governed by a board consisting of members appointed by the City Manager (subject to City Council approval). The LDFA was formed to promote economic growth in the City of Hudson, Michigan pursuant to Public Act 281 of 1986. The Downtown Development Authority (DDA) is also governed by a board of directors and promotes economic improvements and growth for the downtown area of the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

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

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.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
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As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

The government reports the following major governmental funds:

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

The Ambulance Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community.

The Income Tax Fund is a Special Revenue Fund that receives monies from residents, non-residents and businesses performing or operating within the City limits of Hudson, Michigan. These monies have been used for special projects, capital in nature.

The Fire Fund is a Special Revenue Fund that receives monies from various governmental units and donations to provide for fire protection for the area.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

The government reports the following major proprietary funds:

The Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

The government reports the following component units:

The Component Units - consists of the following two funds.

The Local Development Finance Authority is a separate entity, considered a component unit of the primary government, which promotes economic growth in the City, the financial reporting is on a modified accrual method of accounting.

The Downtown Development Authority is a separate entity, considered a component unit of the primary government, the City, which provides development for the downtown authority, through captured tax revenues. The financial reporting is on a modified accrual method of accounting.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Proprietary Funds distinguish *operating* 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 Utilities Funds are charges to customers for sales and services. The Utilities Funds also recognize, as operating revenues, the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

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

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

E. Assets, Liabilities, and Net Assets or Equity

1. Bank Deposits and Investment

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

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Receivables and Payables

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

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Restricted Assets

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

8. Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

9. Fund Balance Classification Policies and Procedures

Fund balance classifications shown in the governmental funds financial statements are non-spendable, restricted, committed, assigned and unassigned.

Non-Spendable Fund Balance Classification includes amounts that cannot be spent because they are either non-spendable in form or legally or contractually required to be maintained intact.

Restricted Fund Balance Classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance Classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority.

Assigned Fund Balance Classification are intended to be used by the government for specific purposes but do not meet the criteria of restricted or committed.

Unassigned Fund Balance Classification is the residual.

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Manager presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

B. Excess of Expenditures Over Appropriations In Budgeted Funds - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2016, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
City Council	\$ 18,814	\$ 18,937	\$ 123
Clerk	71,530	73,999	2,469
Community Economic Development:			
MSHDA Rental Rehab	---	213,720	213,720
Capital Outlay	116,020	123,921	7,901
Income Tax Fund:			
Transfer to Other Funds	372,928	491,129	118,201
Fire Fund:			
Public Safety	77,333	82,664	5,331
Major Streets:			
Public Works	184,950	424,421	239,471

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Below is a reconciliation of deposits and investments as of June 30, 2016:

<u>Statement of Net Assets</u>	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Cash and Cash Equivalents	\$1,296,157	\$45,280	\$1,341,437
Investments	43,427	---	43,427
Restricted Cash and Cash Equivalents	14,878	---	14,878
Totals	<u>\$1,354,462</u>	<u>\$45,280</u>	<u>\$1,399,742</u>
 <u>Deposits and Investments</u>			
Bank Deposits (Checking, Savings, Money Markets and Certificates of Deposits)			\$1,399,742
Total			<u>\$1,399,742</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

The government complies with state law regarding their investment policy. All deposits are uncollateralized and in the government's name. Due to the dollar amounts of cash deposits and limits of FDIC insurance, the government believes it is impractical to insure all bank deposits. The government does evaluate the financial institutions as to risk. The government has no policy regarding custodial credit risk for deposits. The amount insured thru FDIC for primary government was \$750,000 the amount insured for the component units was \$45,280.

Custodial Credit Risk - Investment

The government's only investments are in certificate of deposits which are insured thru the FDIC. In accordance with the government's investment policy, all investments are held in the name of the government and thus are not exposed to custodial credit risks.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The government's investment policy will limit the government to the safest types of investments, thus minimizing credit risk. Presently the government has only savings, money markets, and certificates of deposits which are partly insured thru FDIC.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The government's policy does not limit investments to one user. Below is the percentage by issuer and type of investment at June 30, 2016.

At June 30, 2016, the City had greater than 5% of its total investment portfolio concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
Certificate of Deposit (FDIC)	Hudson Foundation	52%
Certificate of Deposit (FDIC)	First Federal Bank	23%
Certificate of Deposit (FDIC)	County National Bank	25%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. In accordance with the government's investment policy, the government limits interest rate risk by purchasing a mix of short and longer term investments. This laddering approach also mates investment maturities to projected cash flow needs, thus minimizing interest rate risk and the need to liquidate securities at a loss.

Restricted Cash – Proprietary Funds - Utilities

Restricted cash are as follows:

<u>Description</u>	<u>Utilities Fund</u>
Repair and Replacement	<u>\$14,878</u>
Total	<u>\$14,878</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 207,784	\$ 59,853	\$6,048	\$ 261,589
	<u>207,784</u>	<u>59,853</u>	<u>6,048</u>	<u>261,589</u>
Capital Assets, Being Depreciated:				
Buildings	1,999,744	---	---	1,999,744
Vehicles	1,988,786	---	---	1,988,786
Equipment	2,286,925	956,245	---	3,243,170
Infrastructure	5,390,584	2,314,459	---	7,705,043
	<u>11,666,039</u>	<u>3,270,704</u>	<u>---</u>	<u>14,936,743</u>
Total Capital Assets Being Depreciated	<u>11,666,039</u>	<u>3,270,704</u>	<u>---</u>	<u>14,936,743</u>
Less Accumulated Depreciation For:				
Buildings	(1,000,752)	(46,505)	---	(1,047,257)
Vehicles	(1,430,579)	(100,162)	---	(1,530,741)
Equipment	(1,698,723)	(163,819)	---	(1,862,542)
Infrastructure	(3,741,684)	(163,475)	---	(3,905,159)
	<u>(7,871,738)</u>	<u>(473,961)</u>	<u>---</u>	<u>(8,345,699)</u>
Total Accumulated Depreciation	<u>(7,871,738)</u>	<u>(473,961)</u>	<u>---</u>	<u>(8,345,699)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,794,301</u>	<u>2,796,743</u>	<u>---</u>	<u>6,591,044</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,002,085</u>	<u>\$2,856,596</u>	<u>\$6,048</u>	<u>\$ 6,852,633</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 33,600	\$ ---	\$ ---	\$ 33,600
	<u>33,600</u>	<u>---</u>	<u>---</u>	<u>33,600</u>
Capital Assets, Being Depreciated:				
Buildings and Systems	9,091,221	119,147	---	9,210,368
Equipment	423,941	---	---	423,941
	<u>9,515,162</u>	<u>119,147</u>	<u>---</u>	<u>9,634,309</u>
Total Capital Assets Being Depreciated	<u>9,515,162</u>	<u>119,147</u>	<u>---</u>	<u>9,634,309</u>
Less Accumulated Depreciation For:				
Buildings	(5,669,385)	(221,142)	---	(5,890,527)
Equipment	(373,142)	(10,364)	---	(383,506)
	<u>(6,042,527)</u>	<u>(231,506)</u>	<u>---</u>	<u>(6,274,033)</u>
Total Accumulated Depreciation	<u>(6,042,527)</u>	<u>(231,506)</u>	<u>---</u>	<u>(6,274,033)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,472,635</u>	<u>(112,359)</u>	<u>---</u>	<u>3,360,276</u>
Business Type Activities Capital Assets, Net	<u>\$ 3,506,235</u>	<u>\$ (112,359)</u>	<u>\$ ---</u>	<u>\$ 3,393,876</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 4 – CAPITAL ASSETS (Continued)

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component Unit Activity - LDFA				
Capital Assets Not Being Depreciated:				
Land	\$ 49,853	\$ ---	\$ 49,853	\$ ---
Total Capital Assets Not Being Depreciated	<u>49,853</u>	<u>---</u>	<u>49,853</u>	<u>---</u>
Capital Assets Being Depreciated:				
Equipment	1,154,740	---	1,154,740	---
Infrastructure	1,865,997	---	1,865,997	---
Total Capital Assets Being Depreciated	<u>3,020,737</u>	<u>---</u>	<u>3,020,737</u>	<u>---</u>
Less Accumulated Depreciation For:				
Equipment	(215,056)	---	(215,056)	---
Infrastructure	(206,752)	---	(206,752)	---
Total Accumulated Depreciation	<u>(421,808)</u>	<u>---</u>	<u>(421,808)</u>	<u>---</u>
Total Capital Assets, Being Depreciated, Net	<u>2,598,929</u>	<u>---</u>	<u>2,598,929</u>	<u>---</u>
Component Unit - LDFA Capital Assets, Net	<u>\$2,648,782</u>	<u>\$ ---</u>	<u>\$2,648,782</u>	<u>\$ ---</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component Unit Activity - DDA				
Capital Assets Not Being Depreciated:				
Land	\$ 30,000	\$ ---	\$ ---	\$ 30,000
Total Capital Assets Not Being Depreciated	<u>30,000</u>	<u>---</u>	<u>---</u>	<u>30,000</u>
Capital Assets Being Depreciated:				
Building Improvements	147,984	79,500	---	227,484
Equipment	8,725	8,008	---	16,733
Total Capital Assets Being Depreciated	<u>156,709</u>	<u>87,508</u>	<u>---</u>	<u>244,217</u>
Less Accumulated Depreciation For:				
Building Improvements	(36,682)	(5,919)	---	(42,601)
Equipment	(3,739)	(1,447)	---	(5,186)
Total Accumulated Depreciation	<u>(40,421)</u>	<u>(7,366)</u>	<u>---</u>	<u>(47,787)</u>
Total Capital Assets, Being Depreciated, Net	<u>116,288</u>	<u>80,142</u>	<u>---</u>	<u>196,430</u>
Component Unit - DDA Capital Assets, Net	<u>\$ 146,288</u>	<u>\$80,142</u>	<u>\$ ---</u>	<u>\$ 226,430</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 4 – CAPITAL ASSETS (Continued)

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

Governmental Activities:

General Government	\$154,074
Public Safety	211,896
Public Works	58,654
Culture and Recreation	21,231
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>28,106</u>

Total Depreciation Expense Governmental Activities	<u><u>\$473,961</u></u>
---	-------------------------

Business-Type Activities:

Utilities	<u>\$231,506</u>
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Total Depreciation Expense Business-Type Activities	<u><u>\$231,506</u></u>
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Component Unit Activities:

Equipment	\$ 1,447
Building Improvements	<u>5,919</u>

Total Depreciation Expense Component Unit Activities	<u><u>\$ 7,366</u></u>
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CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 6 – TRANSFERS

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Summer Recreation	\$ 9,300	\$ ---
General	45,000	48,143
Income Tax	---	491,129
Major Street	40,000	31,000
Local	189,000	---
Utilities	218,359	---
Fire	25,000	---
Ambulance	22,500	---
Community Center	2,363	---
Industrial Park	5,750	---
Cemetery Foundation	13,000	---
	<u>\$570,272</u>	<u>\$570,272</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on September 15 with a 1/2% interest charge beginning September 15th. All delinquent taxes are charged with a 6% penalty.

The City currently levies 10.64190 mills for operating and 1.0 mills for ambulance. Property taxes attach as an enforceable lien on the property as of January 1.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	<u>Balance</u> <u>July 1,</u> <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2016</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Bonds Payable - 2001					
Drinking Water Program	\$ 781,665	\$ ---	\$ 95,000	\$686,665	\$ 95,000
Compensated Absences	33,056	28,017	33,056	28,017	28,017
Note Payable - Ambulance	<u>102,815</u>	<u>---</u>	<u>19,416</u>	<u>83,399</u>	<u>20,006</u>
Total	<u>\$ 917,536</u>	<u>\$28,017</u>	<u>\$147,472</u>	<u>\$798,081</u>	<u>\$143,023</u>

Ambulance – 2014 International

Title of Issue: Ambulance – Note Payable – United Bank & Trust
Purpose: Purchase Ambulance
Date of Note: May 31, 2013
Maturity of Note: May 30, 2020
Interest Rate: 2.95%
Payments: Annually at \$22,500 including interest – starting May 30, 2014
Amount of Note: \$140,000

	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
May 30, 2017	\$22,500	\$2,494	\$20,006
May 30, 2018	22,500	1,896	20,604
May 30, 2019	22,500	1,280	21,220
May 30, 2020	<u>22,216</u>	<u>647</u>	<u>21,569</u>
	<u>\$89,716</u>	<u>\$6,317</u>	<u>\$83,399</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 8 – LONG TERM DEBT (CONTINUED)

City of Hudson – Drinking Water Bond Issue

Title of Issue: City of Hudson Drinking Water Program General
Obligation Bonds
Purpose: Drinking Water, etc.
Date of Issue: June 28, 2001
Interest Rate: 2.50%
Interest Payable: Semi-Annual on October 1, and April 1, of each year
Amount of Issue: \$1,731,665
Available Funds: \$38,335

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2016	\$102,808	\$ 7,808	\$ 95,000
April 1, 2017	6,620	6,620	
October 1, 2017	106,620	6,620	100,000
April 1, 2018	5,370	5,370	
October 1, 2018	105,370	5,370	100,000
April 1, 2019	4,120	4,120	
October 1, 2019	109,120	4,120	105,000
April 1, 2020	2,870	2,870	
October 1, 2020	107,870	2,870	105,000
April 1, 2021	1,495	1,495	
October 1, 2021	111,495	1,495	110,000
April 1, 2022	120	120	
October 1, 2022	71,785	120	71,665
	<u>\$735,663</u>	<u>\$48,998</u>	<u>\$686,665</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 8 – LONG TERM DEBT (CONTINUED)

Maturities of Long-Term Debt

Maturities for the long-term debt are as follows:

<u>Years</u>	<u>Principal Amounts</u>	<u>Interest Amounts</u>
2017	\$143,023	\$16,922
2018	120,604	13,886
2019	121,220	10,770
2020	126,569	7,637
2021	105,000	4,365
2022	110,000	1,615
2023	71,665	120
	<u>\$798,081</u>	<u>\$55,315</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 9 – CAFETERIA PLAN – MEDICAL REIMBURSEMENT PLAN – DEPENDENT CARE PLAN

The City of Hudson has approved and adopted the Cafeteria Plan, Medical Expense Reimbursement Plan and Dependent Care Assistance Plan to be effective January 1, 1998.

The City of Hudson adopted a Cafeteria Plan under Internal Revenue Service Code SS 125, a Medical Expense Reimbursement Plan under code SS 105 (b) and a Dependent Care Assistance Plan Under Code SS 129. Each full-time employee is eligible to participate in each of the plans established. The maximum reimbursement for which any participant may apply under the Medical Expense Reimbursement Plan is \$3,000. The maximum reimbursement for which any participant may apply under the Dependent Care Assistance Plan is \$5,000.

The City of Hudson does not contribute to the Cafeteria Plan.

NOTE 10 – PENSION PLAN

The government offers all full time employees a 401(k) plan which is a tax qualified defined contribution pension plan created in accordance with subsection 401(k) of the Internal Revenue Codes. The assets of the plans were held in custodial accounts as provided in IRC Section 401(k) for the exclusive benefit of the employees and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the government's financial statements. Contributions are made by the City and employees.

NOTE 11 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2016, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 12 – RECEIVABLES

Receivables of the governmental activities and business-type activities of the government at June 30, 2016 consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Property Taxes/Assessments	\$ 2,222	\$ ---
Income Taxes	19,827	---
Ambulance Runs	81,007	---
State of Michigan	91,228	---
Equipment Rent	612	---
Refuse	30,846	---
Utilities	---	---
Interest	<u>11</u>	<u>150,619</u>
Totals	<u>\$225,753</u>	<u>\$150,619</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2016

NOTE 13 – SUBSEQUENT EVENTS

Management has reviewed the events occurring through October 5, 2016, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

NOTE 14 – INVESTMENTS

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on investments due to changes in fair value are recognized each year.

Presently the City has investments in the Hudson Foundation a non-profit entity.

	<u>Fair Market Value</u>
Hudson Museum Fund	\$22,458
Total	<u>\$22,458</u>

NOTE 15 – SEGMENT INFORMATION – ENTERPRISE FUNDS

The government issued revenue bonds to finance certain improvements to its sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are reported as major funds in the fund financial statements, segment disclosures herein are not required.

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 379,515	\$ 379,515	\$ 379,515	\$ ---
Resources (Inflows)				
Taxes and Assessments	570,093	524,707	524,706	(1)
Intergovernmental	246,600	238,436	238,372	(64)
Grants	1,000	3,000	216,637	213,637
Licenses and Permits	23,470	28,198	28,223	25
Fines and Forfeitures	9,000	8,207	8,207	---
Charges for Services	595,496	595,235	594,923	(312)
Interest and Rentals	15,325	14,065	14,122	57
Other	1,000	1,850	9,453	7,603
Transfers from Other Funds	96,375	129,517	45,000	(84,517)
	<u>1,937,874</u>	<u>1,922,730</u>	<u>2,059,158</u>	<u>136,428</u>
Amounts Available for Appropriation				
	<u>1,937,874</u>	<u>1,922,730</u>	<u>2,059,158</u>	<u>136,428</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government				
City Council	18,160	18,814	18,937	(123)
City Manager	82,526	84,545	82,888	1,657
Office Operations	38,635	45,148	42,910	2,238
Treasurer	70,332	73,860	72,305	1,555
Assessing	18,000	17,350	16,828	522
Clerk	71,111	71,530	73,999	(2,469)
Elections	5,870	4,558	4,488	70
City Attorney/Auditing	17,950	16,610	16,610	---
Buildings and Grounds	14,500	11,785	11,520	265
	<u>337,084</u>	<u>344,200</u>	<u>340,485</u>	<u>3,715</u>
Public Safety				
Police	304,693	295,152	289,523	5,629
Inspections	11,700	14,090	13,990	100
	<u>316,393</u>	<u>309,242</u>	<u>303,513</u>	<u>5,729</u>
Community Economic Development				
Zoning	5,859	4,219	3,719	500
MSHDA Rental Rehab	---	---	213,720	(213,720)
	<u>5,859</u>	<u>4,219</u>	<u>217,439</u>	<u>(213,220)</u>
Public Works				
Mosquito Spraying	7,500	3,143	3,143	---
Sanitary Landfill	5,000	5,000	5,000	---
Street Maintenance & Lighting	468,329	455,633	451,977	3,656
Spring/Fall Cleanup	2,200	2,200	2,100	100
Refuse Collection	96,048	96,587	96,587	---
	<u>579,077</u>	<u>562,563</u>	<u>558,807</u>	<u>3,756</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule (Concluded)
General Fund
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Charges to Appropriations (Outflows)</u> <u>(Continued)</u>	\$	\$	\$	\$
Other Functions	<u>193,897</u>	<u>166,411</u>	<u>114,604</u>	<u>51,807</u>
Capital Outlay	<u>73,000</u>	<u>116,020</u>	<u>123,921</u>	<u>(7,901)</u>
Transfers to Other Funds	<u>53,049</u>	<u>48,143</u>	<u>48,143</u>	<u>---</u>
Total Charges to Appropriations	<u>1,558,359</u>	<u>1,550,798</u>	<u>1,706,912</u>	<u>(156,114)</u>
Ending of Year Fund Balance	<u>\$ 379,515</u>	<u>\$ 371,932</u>	<u>\$ 352,246</u>	<u>\$ (19,686)</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Ambulance Fund (Major Special Revenue Funds)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 54,339	\$ 54,339	\$ 54,339	\$ ---
<u>Resources (Inflows)</u>				
Taxes	52,000	49,305	49,204	(101)
Charges For Services	425,700	447,870	499,498	51,628
Interest Income	40	40	119	79
Transfer In From Funds	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>	<u>---</u>
Amounts Available for Appropriation	<u>554,579</u>	<u>574,054</u>	<u>625,660</u>	<u>51,606</u>
<u>Charges to Appropriations (Outflows)</u>				
<u>Public Safety</u>				
Ambulance	477,740	497,215	481,449	15,766
Debt Service:				
Principle Payments	19,416	19,416	19,416	---
Interest Payments	<u>3,084</u>	<u>3,084</u>	<u>3,084</u>	<u>---</u>
Total Charges				
to Appropriations	<u>500,240</u>	<u>519,715</u>	<u>503,949</u>	<u>15,766</u>
Ending of Year Fund Balance	<u>\$ 54,339</u>	<u>\$ 54,339</u>	<u>\$121,711</u>	<u>\$67,372</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Income Tax Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance	\$236,529	\$236,529	\$236,529	\$ ---
<u>Resources (Inflows)</u>				
Taxes	423,000	460,866	460,866	---
Interest and Rentals	291	291	209	(82)
Transfer In From Funds	116,632	57,784	---	(57,784)
Misc.	---	89,681	89,741	60
	<u>776,452</u>	<u>845,151</u>	<u>787,345</u>	<u>(57,806)</u>
Amounts Available for Appropriation				
	<u>776,452</u>	<u>845,151</u>	<u>787,345</u>	<u>(57,806)</u>
<u>Charges to Appropriations (Outflows)</u>				
General Government	104,995	111,703	111,671	32
Transfers to Other Funds	392,428	372,928	491,129	(118,201)
Capital Outlay	42,500	123,991	5,489	118,502
	<u>539,923</u>	<u>608,622</u>	<u>608,289</u>	<u>333</u>
Total Charges to Appropriations				
	<u>539,923</u>	<u>608,622</u>	<u>608,289</u>	<u>333</u>
Ending of Year Fund Balance	<u>\$236,529</u>	<u>\$236,529</u>	<u>\$179,056</u>	<u>\$(57,473)</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Fire Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 23,209	\$ 23,209	\$ 23,209	\$ ----
<u>Resources (Inflows)</u>				
Contribution from				
Local Units	54,787	53,287	53,287	----
Donations	583	583	590	7
Transfer in from Funds	26,500	25,000	25,000	----
Other Revenue	100	100	15	(85)
Interest and Rentals	15	15	9	(6)
	<u>105,194</u>	<u>102,194</u>	<u>102,110</u>	<u>(84)</u>
Amounts Available for Appropriation				
<u>Charges to Appropriations (Outflows)</u>				
Public Safety	80,333	77,333	82,664	(5,331)
Capital Outlay	1,652	1,652	1,652	----
	<u>81,985</u>	<u>78,985</u>	<u>84,316</u>	<u>(5,331)</u>
Total Charges to Appropriations				
<u>Ending of Year Fund Balance</u>	<u>\$ 23,209</u>	<u>\$ 23,209</u>	<u>\$ 17,794</u>	<u>\$ 5,415</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$255,948	\$255,948	\$255,948	\$ ---
Resources (Inflows)				
Intergovernmental	136,100	148,279	149,966	1,687
Interest and Rentals	50	50	69	19
Transfers from Other Funds	64,400	67,621	40,000	(27,621)
Grant - CDBG	213,750	---	239,450	239,450
	<u>670,248</u>	<u>471,898</u>	<u>685,433</u>	<u>213,535</u>
Amounts Available for Appropriation				
	<u>670,248</u>	<u>471,898</u>	<u>685,433</u>	<u>213,535</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	383,300	184,950	424,421	(239,471)
Transfers to Other Funds	31,000	31,000	31,000	---
	<u>414,300</u>	<u>215,950</u>	<u>455,421</u>	<u>(239,471)</u>
Total Charges to Appropriations				
	<u>414,300</u>	<u>215,950</u>	<u>455,421</u>	<u>(239,471)</u>
Ending of Year Fund Balance	<u>\$255,948</u>	<u>\$255,948</u>	<u>\$230,012</u>	<u>\$ (25,936)</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Local Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$220,068	\$220,068	\$220,068	\$ ---
Resources (Inflows)				
Intergovernmental	64,200	84,422	90,959	6,537
Transfers from Other Funds	265,000	216,804	189,000	(27,804)
Interest Income	60	60	8	(52)
	<u>549,328</u>	<u>521,354</u>	<u>500,035</u>	<u>(21,319)</u>
Amounts Available for Appropriation				
<u>Charges to Appropriations (Outflows)</u>				
Public Works	89,260	75,796	74,544	1,252
Capital Outlay	240,000	225,490	225,490	---
	<u>329,260</u>	<u>301,286</u>	<u>300,034</u>	<u>1,252</u>
Total Charges to Appropriations				
Ending of Year Fund Balance	<u>\$220,068</u>	<u>\$220,068</u>	<u>\$200,001</u>	<u>\$(20,067)</u>

CITY OF HUDSON, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016

Special Revenue Funds

	<u>Recreation</u>	<u>Cemetery</u>
<u>Assets</u>		
Cash and Equivalents	\$28,934	\$30,564
Investments	---	---
Receivables	---	---
	<u>---</u>	<u>---</u>
Total Assets	<u>\$28,934</u>	<u>\$30,564</u>
 <u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	\$ 1,557	\$ ---
Deposits Payable	---	---
Accrued Liabilities	---	34
	<u>---</u>	<u>34</u>
Total Liabilities	<u>1,557</u>	<u>34</u>
 <u>Fund Balance</u>		
Restricted For:		
Summer Recreation	27,377	---
Cemetery	---	30,530
Community Center	---	---
Museum	---	---
Cemetery Perpetual Care	---	---
Library	---	---
	<u>---</u>	<u>---</u>
Committed For:		
Debt Service	---	---
	<u>---</u>	<u>---</u>
Total Fund Balances	<u>27,377</u>	<u>30,530</u>
Total Liabilities and Fund Balances	<u>\$28,934</u>	<u>\$30,564</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>				<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Industrial Park</u>	<u>Cemetery Perpetual Care</u>	
\$ 2,166	\$12,832	\$38,113	\$24,188	\$2,131	\$138,928
---	---	43,427	---	---	43,427
---	---	8	---	3	11
<u>\$ 2,166</u>	<u>\$12,832</u>	<u>\$81,548</u>	<u>\$24,188</u>	<u>\$2,134</u>	<u>\$182,366</u>
\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 1,557
3,950	---	---	---	---	3,950
---	---	---	116	---	150
<u>3,950</u>	---	---	<u>116</u>	---	<u>5,657</u>
---	---	---	---	---	27,377
(1,784)	---	---	---	---	30,530
---	---	81,548	---	---	(1,784)
---	---	---	---	---	81,548
---	12,832	---	---	2,134	2,134
---	---	---	---	---	12,832
<u>---</u>	<u>---</u>	<u>---</u>	<u>24,072</u>	<u>---</u>	<u>24,072</u>
<u>(1,784)</u>	<u>12,832</u>	<u>81,548</u>	<u>24,072</u>	<u>2,134</u>	<u>176,709</u>
<u>\$ 2,166</u>	<u>\$12,832</u>	<u>\$81,548</u>	<u>\$24,188</u>	<u>\$2,134</u>	<u>\$182,366</u>

CITY OF HUDSON, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes In Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2016

Special Revenue Funds

	<u>Recreation</u>	<u>Cemetery</u>
<u>Revenues:</u>		
Charges for Services	\$26,437	\$ 12,612
Interest and Rents	---	9
Other Revenue	---	3,500
Contributions	---	---
	<u>26,437</u>	<u>16,121</u>
Total Revenue		
<u>Expenditures:</u>		
General Government	---	31,313
Recreational and Cultural	24,404	---
Capital Outlay	---	---
	<u>24,404</u>	<u>31,313</u>
Total Expenditures		
<u>Excess of Revenues Over</u>		
<u>(Under) Expenditures</u>	<u>2,033</u>	<u>(15,192)</u>
<u>Other Financing Sources (Uses):</u>		
Operating Transfers In	<u>9,300</u>	<u>13,000</u>
Total Other Financing		
Sources (Uses)	<u>9,300</u>	<u>13,000</u>
Excess of Revenues and Other		
Sources Over (Under)		
(Expenditures and Other Uses)	11,333	(2,192)
Beginning Fund Balance	<u>16,044</u>	<u>32,722</u>
Ending Fund Balance (Deficit)	<u>\$27,377</u>	<u>\$ 30,530</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>				<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Industrial Park</u>	<u>Cemetery Perpetual Care</u>	
\$ --- 12,711 883 ---	\$ --- --- --- ---	\$ --- 2,717 160 14,735	\$ --- --- 15,000 ---	\$ --- 22 --- ---	\$ 39,049 15,459 19,543 14,735
<u>13,594</u>	<u>---</u>	<u>17,612</u>	<u>15,000</u>	<u>22</u>	<u>88,786</u>
---	---	---	4,512	---	35,825
17,636 1,520	25,836 ---	11,935 ---	10,000	---	53,975 11,520
<u>19,156</u>	<u>25,836</u>	<u>11,935</u>	<u>14,512</u>	<u>---</u>	<u>101,320</u>
<u>(5,562)</u>	<u>(25,836)</u>	<u>5,677</u>	<u>488</u>	<u>22</u>	<u>(12,534)</u>
<u>2,363</u>	<u>---</u>	<u>---</u>	<u>5,750</u>	<u>---</u>	<u>30,413</u>
<u>2,363</u>	<u>---</u>	<u>---</u>	<u>5,750</u>	<u>---</u>	<u>4,577</u>
(3,199)	(25,836)	5,677	6,238	22	(7,957)
<u>1,415</u>	<u>38,668</u>	<u>75,871</u>	<u>17,834</u>	<u>2,112</u>	<u>184,666</u>
<u>\$(1,784)</u>	<u>\$ 12,832</u>	<u>\$81,548</u>	<u>\$24,072</u>	<u>\$2,134</u>	<u>\$176,709</u>

CITY OF HUDSON, MICHIGAN
Combining Balance Sheet
Component Units
For The Year Ended June 30, 2016

	<u>Local Development Finance Authority</u>	<u>Downtown Development Authority</u>	<u>Total Component Units</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>Assets</u>					
Cash and Cash Equivalents	\$ ---	\$45,280	\$45,280	\$ ---	\$ 45,280
Capital Assets, Net	<u>---</u>	<u>---</u>	<u>---</u>	<u>226,430</u>	<u>226,430</u>
Total Assets	<u>\$ ---</u>	<u>\$45,280</u>	<u>\$45,280</u>	<u>\$226,430</u>	<u>\$271,710</u>
<u>Fund Balance/Net Assets</u>					
Unassigned	<u>---</u>	<u>45,280</u>	<u>45,280</u>	<u>(45,280)</u>	<u>---</u>
Total Fund Balance	<u>---</u>	<u>45,280</u>	<u>45,280</u>	<u>(45,280)</u>	<u>---</u>
Total Liabilities and Fund Balance	<u>\$ ---</u>	<u>\$45,280</u>	<u>\$45,280</u>		
<u>Net Assets</u>					
Invested in Capital Assets Unrestricted				226,430	226,430
				<u>45,280</u>	<u>45,280</u>
Total Net Assets				<u>\$271,710</u>	<u>\$271,710</u>

CITY OF HUDSON, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Component Units
For The Year Ended June 30, 2016

	<u>Local Development Finance Authority</u>	<u>Downtown Development Authority</u>	<u>Total Component Units</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Revenues					
Property Taxes	\$ ---	\$ 69,040	\$ 69,040	\$ ---	\$ 69,040
Interest Income	---	12	12	---	12
Rental Income	---	3,600	3,600	---	3,600
Total Revenues	<u>---</u>	<u>72,652</u>	<u>72,652</u>	<u>---</u>	<u>72,652</u>
Expenditures					
Depreciation	---	---	---	7,366	7,366
Operating Expenses	---	4,406	4,406	---	4,406
Capital Outlay	---	87,508	87,508	(87,508)	---
Total Expenditures	<u>---</u>	<u>91,914</u>	<u>91,914</u>	<u>(80,142)</u>	<u>11,772</u>
Excess of Revenue Over (Under) Expenditures	<u>---</u>	<u>(19,262)</u>	<u>(19,262)</u>	<u>80,142</u>	<u>60,880</u>
Other Financing Sources (Uses)					
Transfers Out	---	---	---	(2,648,782)	(2,648,782)
Total Other Financing Sources (Uses)	<u>---</u>	<u>---</u>	<u>---</u>	<u>(2,648,782)</u>	<u>(2,648,782)</u>
Net Change in Fund Balance (Decrease)	<u>---</u>	<u>(19,262)</u>	<u>(19,262)</u>	<u>(2,568,640)</u>	<u>(2,587,902)</u>
Fund Balance/Net Assets Beginning of Year	<u>---</u>	<u>64,542</u>	<u>64,542</u>	<u>2,795,070</u>	<u>2,859,612</u>
Fund Balance/Net Assets End of Year	<u>\$ ---</u>	<u>\$ 45,280</u>	<u>\$ 45,280</u>	<u>\$ 226,430</u>	<u>\$ 271,710</u>

The accompanying notes are an integral part of this financial statement.

PHILIP R. RUBLEY

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'s
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

October 5, 2016

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

**Honorable Mayor and Members
of the City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Hudson, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hudson, Michigan's basic financial statements and have issued our report thereon dated October 5, 2016.

Internal Control Over Financial Reporting

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

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

**Honorable Mayor and Members
of the City Council
City of Hudson
October 5, 2016**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies (2016.1 - 2016.2).

Compliance and Other Matters

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

City of Hudson Response to Findings

City of Hudson, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings. City of Hudson, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Sincerely,



Philip R. Rubley, CPA

PRR/cab

**CITY OF HUDSON, MICHIGAN
SCHEDULE OF FINDINGS
JUNE 30, 2016**

2016.1 PREPARATION OF BASIC FINANCIAL STATEMENTS

Criteria: The City is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal controls.

Cause: This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of obtaining the necessary training to perform this task.

Effect: The result of this condition is that the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Official: The City- will continue to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the City will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.

2016.2 ACCOUNTING FOR FIXED ASSETS AND LEASES

Criteria: The City is to maintain adequate records reflecting fixed assets and leases in accordance with their capitalization policy.

Condition: The City has historically relied on its independent external auditors to assist in the maintaining of the fixed assets in order to prepare the financial statements in accordance with GAAP.

Cause: This condition is caused by the City's decision that it is more cost effective to outsource the function then to buy and train personnel to perform this task.

View of Responsible Official: The City will continue to evaluate the cost vs. benefit fixed asset and leases.



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October 5, 2016

**Honorable Mayor and Members
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City of Hudson
121 N. Church St.
Hudson, Michigan 49247**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hudson, Michigan for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 15, 2016. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Hudson, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015-2016. We noted no transactions entered into by City of Hudson, Michigan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the City of Hudson, Michigan's financial statements.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2016.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the statements of Budgetary Comparison Schedules for the General, Ambulance, Income Tax, Fire, Major Streets and Local Streets Funds which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Combining and Individual Fund Statements for the Non-Major Funds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated for form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Honorable Mayor and Members
of the City Council
City of Hudson
October 5, 2016
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Other Comments

1. Grants and Accounting Procedures

Grants revenue should not be netted with grant expenditures. The maintaining of the accounting records must be included in the general ledger system. You still can maintain outside the system also if you wish.

2. Administrative Costs Allocations

The City needs to update, review and revise where necessary the allocation of administrative costs between funds.

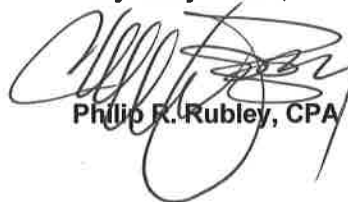
3. Deficit Fund Balance – Community Center

The City needs to eliminate the deficit fund balance in the Community Center fund.

RESTRICTION ON USE

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

Very Truly Yours,



Philip R. Rubley, CPA

PRR/cab