

---

# City of Davison, Michigan

---

**Financial Report  
with Supplemental Information  
June 30, 2019**

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-6
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet to the Statement of Net Position	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Position	14
Statement of Revenue, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
Component Units:	
Statement of Net Position	19
Statement of Activities	20-21
Notes to Financial Statements	22-50
<b>Required Supplemental Information</b>	51
Budgetary Comparison Schedule - General Fund	52
Budgetary Comparison Schedule - Major Special Revenue Funds	53-54
Schedule of Changes in the Net Pension Liability and Related Ratios - Union and Supervisors Pension Plan	55
Schedule of Pension Contributions - Union and Supervisors Pension Plan	56
Schedule of Changes in the Net Pension Liability and Related Ratios - Nonunion Pension Plan	57
Schedule of Pension Investment Returns - Nonunion Pension Plan	58
Schedule of Pension Contributions - Nonunion Pension Plan	59
Schedule of Changes in the Net OPEB Liability and Related Ratios	60
Schedule of OPEB Contributions	61
Note to Required Supplemental Information	62
<b>Other Supplemental Information</b>	63
Nonmajor Governmental Funds:	
Fund Descriptions	64
Combining Balance Sheet	65
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	66

## Independent Auditor's Report

To the City Council  
City of Davison, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison, Michigan (the "City") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the City of Davison, Michigan's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, 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 Davison, Michigan as of June 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council  
City of Davison, Michigan

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 Davison, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

*Plante & Moran, PLLC*

October 22, 2019

This section of the City of Davison, Michigan's (the "City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

**Financial Highlights**

- The City's total net position is \$3.3 million.
- The City's overall unrestricted net position is a deficit of \$8.9 million.
- General Fund revenue exceeded expenditures by \$27 thousand, leaving the General Fund with a fund balance of \$1,267,861.

**Using This Annual Report**

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

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

**The City's Net Position**

The following table shows, in a condensed format, the current year's net position and changes in net position compared to the prior year:

	Governmental Activities			
	2018	2019	Change	Percent Change
<b>Assets</b>				
Other assets	\$ 4,330,593	\$ 4,760,299	\$ 429,706	9.9
Capital assets	5,666,474	5,734,377	67,903	1.2
Total assets	9,997,067	10,494,676	497,609	5.0
<b>Deferred Outflows of Resources</b>	663,590	1,174,728	511,138	77.0
<b>Liabilities</b>				
Current liabilities	140,336	299,463	159,127	113.4
Long-term liabilities	10,961,646	11,672,643	710,997	6.5
Total liabilities	11,101,982	11,972,106	870,124	7.8
<b>Deferred Inflows of Resources</b>	164,295	69,175	(95,120)	(57.9)
<b>Net Position</b>				
Investment in capital assets	4,684,911	4,837,814	152,903	3.3
Restricted	1,586,618	1,849,691	263,073	16.6
Unrestricted	(6,877,149)	(7,059,382)	(182,233)	2.6
Total net position	<b>\$ (605,620)</b>	<b>\$ (371,877)</b>	<b>\$ 233,743</b>	<b>(38.6)</b>

Management's Discussion and Analysis (Continued)

	Business-type Activities			
	2018	2019	Change	Percent Change
<b>Assets</b>				
Other assets	\$ 3,423,487	\$ 3,658,864	\$ 235,377	6.9
Capital assets	6,540,610	6,526,135	(14,475)	(0.2)
Total assets	9,964,097	10,184,999	220,902	2.2
<b>Deferred Outflows of Resources</b>	230,781	468,242	237,461	102.9
<b>Liabilities</b>				
Current liabilities	73,582	115,474	41,892	56.9
Long-term liabilities	6,346,963	6,897,475	550,512	8.7
Total liabilities	6,420,545	7,012,949	592,404	9.2
<b>Deferred Inflows of Resources</b>	78,654	10,294	(68,360)	(86.9)
<b>Net Position</b>				
Investment in capital assets	3,975,629	4,376,154	400,525	10.1
Restricted	1,291,113	890,837	(400,276)	(31.0)
Unrestricted	(1,571,063)	(1,636,993)	(65,930)	4.2
Total net position	<u>\$ 3,695,679</u>	<u>\$ 3,629,998</u>	<u>\$ (65,681)</u>	(1.8)

**Governmental Activities**

The governmental net position increased 38.6 percent from a year ago, increasing from a deficit of \$(605,620) to a deficit of \$(371,877). The increase was primarily due to increases in other assets and deferred outflows of resources related to pension and OPEB costs.

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$182,233 for the governmental activities. This represents a decrease of approximately 2.6 percent. The current level of unrestricted net position for our governmental activities stands at \$(7,059,382).

**Business-type Activities**

The net position of business-type activities decreased 1.8 percent from a year ago, decreasing from \$3,695,679 to \$3,629,998.

Unrestricted net position of business-type activities decreased by \$65,930, approximately 4.2 percent. The current level of unrestricted net position stands at a deficit of \$(1,636,993).

**The City's Changes in Net Position**

	Governmental Activities			
	2018	2019	Change	Percent Change
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 736,051	\$ 763,086	\$ 27,035	3.7
Operating grants	526,212	607,417	81,205	15.4
Capital grants	61,696	178,371	116,675	189.1
General revenue:				
Property taxes	1,495,568	1,539,256	43,688	2.9
State-shared revenue	531,041	574,064	43,023	8.1
Investment earnings	9,251	13,590	4,339	46.9
Other revenue	228,193	180,561	(47,632)	(20.9)
Total revenue	3,588,012	3,856,345	268,333	7.5
<b>Expenses</b>				
General government	728,186	716,199	(11,987)	(1.6)
Public safety	1,460,576	1,429,057	(31,519)	(2.2)
Public works	1,239,060	1,189,994	(49,066)	(4.0)
Community and economic development	31,779	2,588	(29,191)	(91.9)
Recreation and culture	339,228	269,850	(69,378)	(20.5)
Debt service	16,275	14,914	(1,361)	(8.4)
Total expenses	3,815,104	3,622,602	(192,502)	(5.0)
<b>Change in Net Position</b>	(227,092)	233,743	460,835	(202.9)
<b>Net Position - Beginning of year</b>	(378,528)	(605,620)	(227,092)	60.0
<b>Net Position - End of year</b>	<u>\$ (605,620)</u>	<u>\$ (371,877)</u>	<u>\$ 233,743</u>	(38.6)

	Business-type Activities			
	2018	2019	Change	Percent Change
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 2,689,670	\$ 2,747,842	\$ 58,172	2.2
Capital grants	3,121	118,091	114,970	3,683.8
General revenue - Investment earnings	3,523	2,924	(599)	(17.0)
Total revenue	2,696,314	2,868,857	172,543	6.4
<b>Operating Expenses</b>	2,206,511	2,934,538	728,027	33.0
<b>Change in Net Position</b>	489,803	(65,681)	(555,484)	(113.4)
<b>Net Position - Beginning of year</b>	3,205,876	3,695,679	489,803	15.3
<b>Net Position - End of year</b>	<u>\$ 3,695,679</u>	<u>\$ 3,629,998</u>	<u>\$ (65,681)</u>	(1.8)

**Governmental Activities**

The City's total governmental revenue increased by \$268,333, or 7.5 percent. This was primarily due to an increase in capital grants.

Expenses decreased by \$192,502, or 5.0 percent during the year. This was primarily due to a decrease in recreation and culture due to a decrease in projects performed during the year.

### **Business-type Activities**

The City's total business-type revenue increased by \$172,543, or 6.4 percent. This was primarily due to an increase in capital grants.

Expenses increased by \$728,027, or 33.0 percent during the year. This was primarily due to an increase in pension and OPEB expense due to an increase in these respective liabilities.

### **The City's Funds**

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2019 include the General Fund, Major Streets Fund, and Local Streets Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1.4 million in 2019. Police services are partially supported by a 1.4980 mill levy, which is designated specifically for police protection.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall stayed below budget, resulting in total expenditures of \$185 thousand under budget. That resulted in an overall increase in General Fund fund balance of \$27 thousand, which is higher than the amended budgeted change of \$0.

### **Capital Assets and Debt Administration**

At the end of 2019, the City had invested approximately \$8.7 million in capital assets, net of related debt. Capital assets, as stated in this annual financial report, do not include some prior year infrastructure items, such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, the GASB has allowed cities to comply with this portion of Statement No. 34 prospectively. Additional information on the City's capital assets can be found in Note 5 of this report.

At year end, the City had \$982 thousand in bonds and other debt outstanding for governmental activities and \$2.6 million in bonds and other debt outstanding for business-type activities. The City had commenced an inflow and infiltration project in 2009, which is being funded with general obligation bonds. The general obligation bonds will be repaid through a 1.3481 mill levy approved by the voters. Additional information on the City's long-term debt can be found in Note 8 of this report.

### **Requests for Further Information**

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 City of Davison, Michigan, 200 E. Flint Street, Davison, MI 48423.

June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 3,351,823	\$ 2,296,798	\$ 5,648,621	\$ 100,853
Receivables	326,501	663,183	989,684	-
Internal balances	1,533	(1,533)	-	-
Inventory	19,625	-	19,625	-
Prepaid expenses and other assets	64,021	8,960	72,981	450
Restricted assets (Note 1)	-	691,456	691,456	-
Investment in joint ventures	996,796	-	996,796	-
Land held for resale (Note 1)	-	-	-	79,880
Capital assets: (Note 5)				
Assets not subject to depreciation	1,470,882	1,000	1,471,882	-
Assets subject to depreciation - Net	4,263,495	6,525,135	10,788,630	4,161
<b>Total assets</b>	<b>10,494,676</b>	<b>10,184,999</b>	<b>20,679,675</b>	<b>185,344</b>
<b>Deferred Outflows of Resources</b>				
Deferred pension costs (Note 9)	836,462	316,269	1,152,731	-
Deferred OPEB costs (Note 10)	338,266	151,973	490,239	-
<b>Total deferred outflows of resources</b>	<b>1,174,728</b>	<b>468,242</b>	<b>1,642,970</b>	<b>-</b>
<b>Liabilities</b>				
Accounts payable	236,661	79,166	315,827	1,609
Due to other governmental units	4,937	-	4,937	-
Deposits	-	12,259	12,259	-
Accrued liabilities and other	57,865	24,049	81,914	-
Noncurrent liabilities:				
Due within one year: (Note 8)				
Compensated absences	77,607	8,112	85,719	-
Current portion of long-term debt	85,000	370,000	455,000	-
Due in more than one year:				
Net OPEB obligation (Note 10)	5,575,074	2,504,746	8,079,820	-
Net pension liability (Note 9)	5,123,399	2,234,636	7,358,035	-
Long-term debt (Note 8)	811,563	1,779,981	2,591,544	-
<b>Total liabilities</b>	<b>11,972,106</b>	<b>7,012,949</b>	<b>18,985,055</b>	<b>1,609</b>
<b>Deferred Inflows of Resources - Deferred pension cost reductions (Note 9)</b>	<b>69,175</b>	<b>10,294</b>	<b>79,469</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	4,837,814	4,376,154	9,213,968	4,161
Restricted for:				
Street maintenance and construction	1,180,542	-	1,180,542	-
Debt service	630,271	-	630,271	-
Rubbish collections	38,878	-	38,878	-
Capital projects	-	199,381	199,381	-
Revenue bond reserve	-	691,456	691,456	-
Unrestricted (deficit)	(7,059,382)	(1,636,993)	(8,696,375)	179,574
<b>Total net position</b>	<b>\$ (371,877)</b>	<b>\$ 3,629,998</b>	<b>\$ 3,258,121</b>	<b>\$ 183,735</b>

# City of Davison, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 716,199	\$ 423,136	\$ -	\$ 114,610
Public safety	1,429,057	20,104	-	-
Public works	1,189,994	313,031	607,417	63,761
Community and economic development	2,588	-	-	-
Recreation and culture	269,850	6,815	-	-
Interest on long-term debt	14,914	-	-	-
Total governmental activities	<u>3,622,602</u>	<u>763,086</u>	<u>607,417</u>	<u>178,371</u>
Business-type activities:				
Sewer Fund	1,342,185	1,213,175	-	118,091
Water Fund	1,592,353	1,534,667	-	-
Total business-type activities	<u>2,934,538</u>	<u>2,747,842</u>	<u>-</u>	<u>118,091</u>
Total primary government	<u><b>\$ 6,557,140</b></u>	<u><b>\$ 3,510,928</b></u>	<u><b>\$ 607,417</b></u>	<u><b>\$ 296,462</b></u>
Component units:				
Downtown Development Authority	\$ 80,374	\$ -	\$ -	\$ -
Local Development Finance Authority	26,322	-	-	-
Total component units	<u><b>\$ 106,696</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income				
Franchise fees				
Gain on sale of capital assets				
Other miscellaneous income				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

## Statement of Activities

Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (178,453)	\$ -	\$ (178,453)	\$ -
(1,408,953)	-	(1,408,953)	-
(205,785)	-	(205,785)	-
(2,588)	-	(2,588)	-
(263,035)	-	(263,035)	-
(14,914)	-	(14,914)	-
(2,073,728)	-	(2,073,728)	-
-	(10,919)	(10,919)	-
-	(57,686)	(57,686)	-
-	(68,605)	(68,605)	-
(2,073,728)	(68,605)	(2,142,333)	-
-	-	-	(80,374)
-	-	-	(26,322)
-	-	-	(106,696)
1,539,256	-	1,539,256	71,284
574,064	-	574,064	27,211
13,590	2,924	16,514	19
91,279	-	91,279	-
-	-	-	(138,795)
89,282	-	89,282	33,229
2,307,471	2,924	2,310,395	(7,052)
233,743	(65,681)	168,062	(113,748)
(605,620)	3,695,679	3,090,059	297,483
<b>\$ (371,877)</b>	<b>\$ 3,629,998</b>	<b>\$ 3,258,121</b>	<b>\$ 183,735</b>

Governmental Funds  
Balance Sheet

June 30, 2019

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 1,144,136	\$ 639,193	\$ 457,146	\$ 690,606	\$ 2,931,081
Receivables:					
Property taxes receivable	1,046	-	-	-	1,046
Other receivables	101,570	-	-	933	102,503
Due from other governmental units	122,217	61,620	23,187	-	207,024
Due from other funds (Note 6)	1,533	85	124	-	1,742
Inventory	19,625	-	-	-	19,625
Prepaid expenses and other assets	61,233	136	199	-	61,568
<b>Total assets</b>	<b>\$ 1,451,360</b>	<b>\$ 701,034</b>	<b>\$ 480,656</b>	<b>\$ 691,539</b>	<b>\$ 3,324,589</b>
<b>Liabilities</b>					
Accounts payable	\$ 100,603	\$ 1,029	\$ -	\$ 22,390	\$ 124,022
Due to other governmental units	4,937	-	-	-	4,937
Due to other funds (Note 6)	1,735	-	-	-	1,735
Accrued liabilities and other	52,749	-	119	-	52,868
<b>Total liabilities</b>	<b>160,024</b>	<b>1,029</b>	<b>119</b>	<b>22,390</b>	<b>183,562</b>
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue (Note 1)	23,475	-	-	-	23,475
<b>Fund Balances</b>					
Nonspendable:					
Inventory	19,625	-	-	-	19,625
Prepays	61,233	136	199	-	61,568
Restricted:					
Street maintenance and construction	-	699,869	480,338	-	1,180,207
Debt service	-	-	-	630,271	630,271
Rubbish collections	-	-	-	38,878	38,878
Unassigned	1,187,003	-	-	-	1,187,003
<b>Total fund balances</b>	<b>1,267,861</b>	<b>700,005</b>	<b>480,537</b>	<b>669,149</b>	<b>3,117,552</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,451,360</b>	<b>\$ 701,034</b>	<b>\$ 480,656</b>	<b>\$ 691,539</b>	<b>\$ 3,324,589</b>

**Governmental Funds**

**Reconciliation of the Balance Sheet to the Statement of Net Position**

**June 30, 2019**

<b>Fund Balances Reported in Governmental Funds</b>	<b>\$ 3,117,552</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,346,233
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	23,475
Investments in joint ventures are not financial resources and are not reported in the funds	996,796
Bonds payable are not due and payable in the current period and are not reported in the funds	(896,563)
Accrued interest is not due and payable in the current period and is not reported in the funds	(3,642)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(77,607)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(5,123,399)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(5,575,074)
Deferred outflows of resources related to pensions	836,462
Deferred outflows of resources related to OPEB	338,266
Deferred inflows of resources related to pensions	(69,175)
Internal service funds are included as part of governmental activities	<u>714,799</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ (371,877)</u></u></b>

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
<b>Revenue</b>					
Property taxes	\$ 1,397,978	\$ -	\$ -	\$ 141,278	\$ 1,539,256
Special assessments	-	-	-	309,750	309,750
Intergovernmental - State-shared revenue and grants	656,180	534,968	141,267	56,861	1,389,276
Charges for services	17,296	-	-	-	17,296
Fines and forfeitures	9,085	-	-	-	9,085
Licenses and permits	13,438	-	-	-	13,438
Interest and rentals:					
Investment earnings	6,501	363	341	4,162	11,367
Rental income	75,589	-	-	-	75,589
Other revenue:					
Miscellaneous income	137,084	-	-	-	137,084
Cable franchise fees	91,279	-	-	-	91,279
Total revenue	2,404,430	535,331	141,608	512,051	3,593,420
<b>Expenditures</b>					
Current:					
General government	320,601	-	-	-	320,601
Public safety	1,400,891	-	-	-	1,400,891
Public works	427,218	370,156	110,525	339,919	1,247,818
Community and economic development	2,588	-	-	-	2,588
Recreation and culture	225,664	-	-	-	225,664
Debt service:					
Principal	-	-	-	85,000	85,000
Interest on long-term debt	-	-	-	15,260	15,260
Total expenditures	2,376,962	370,156	110,525	440,179	3,297,822
<b>Net Change in Fund Balances</b>	27,468	165,175	31,083	71,872	295,598
<b>Fund Balances - Beginning of year</b>	1,240,393	534,830	449,454	597,277	2,821,954
<b>Fund Balances - End of year</b>	<u>\$ 1,267,861</u>	<u>\$ 700,005</u>	<u>\$ 480,537</u>	<u>\$ 669,149</u>	<u>\$ 3,117,552</u>

**Governmental Funds**

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in  
Fund Balances to the Statement of Activities**

**Year Ended June 30, 2019**

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$</b>	<b>295,598</b>
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, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay		313,431
Depreciation expense		(278,968)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available		(36,357)
Changes in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment		9,484
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		85,000
Change in investment in joint venture		97,521
Change in accrued interest payable		346
The change in the net pension liability is recorded when incurred in the statement of activities		(383,674)
The change in the net OPEB liability is recorded when incurred in the statement of activities		(421,807)
Change in deferred outflows of resources related to pensions are recorded in the statement of activities		175,299
Change in deferred outflows of resources related to OPEB are recorded in the statement of activities		335,839
Change in deferred inflows of resources related to pensions are recorded in the statement of activities		93,870
Change in deferred inflows of resources related to OPEB are recorded in the statement of activities		1,250
Internal service funds are included as part of governmental activities		(53,089)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>233,743</u></b>

Proprietary Funds  
Statement of Net Position

June 30, 2019

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,475,013	\$ 821,785	\$ 2,296,798	\$ 420,742
Receivables:				
Receivables from sales to customers on account	307,171	356,012	663,183	-
Other receivables	-	-	-	15,928
Due from other funds	-	-	-	1,526
Prepaid expenses and other assets	3,379	5,581	8,960	2,453
Total current assets	1,785,563	1,183,378	2,968,941	440,649
Noncurrent assets:				
Restricted assets (Note 1)	-	691,456	691,456	-
Capital assets - Net (Note 5)	1,119,064	5,407,071	6,526,135	388,144
Total noncurrent assets	1,119,064	6,098,527	7,217,591	388,144
Total assets	2,904,627	7,281,905	10,186,532	828,793
<b>Deferred Outflows of Resources</b>				
Deferred pension costs (Note 9)	112,224	204,045	316,269	-
Deferred OPEB costs (Note 10)	53,925	98,048	151,973	-
Total deferred outflows of resources	166,149	302,093	468,242	-
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	76,084	3,082	79,166	112,639
Due to other funds (Note 6)	1,257	276	1,533	-
Deposits	-	12,259	12,259	-
Accrued liabilities and other	1,866	22,183	24,049	1,355
Compensated absences (Note 8)	1,162	6,950	8,112	-
Current portion of long-term debt (Note 8)	-	370,000	370,000	-
Total current liabilities	80,369	414,750	495,119	113,994
Noncurrent liabilities:				
Net pension liability (Note 9)	792,935	1,441,701	2,234,636	-
Net OPEB obligation (Note 10)	888,781	1,615,965	2,504,746	-
Long-term debt (Note 8)	-	1,779,981	1,779,981	-
Total noncurrent liabilities	1,681,716	4,837,647	6,519,363	-
Total liabilities	1,762,085	5,252,397	7,014,482	113,994
<b>Deferred Inflows of Resources - Deferred pension cost reductions (Note 9)</b>				
	3,653	6,641	10,294	-
<b>Net Position</b>				
Net investment in capital assets	1,119,064	3,257,090	4,376,154	388,144
Restricted:				
Capital improvement	103,149	96,232	199,381	-
Revenue bond reserve	-	691,456	691,456	-
Unrestricted (deficit)	82,825	(1,719,818)	(1,636,993)	326,655
Total net position	<u>\$ 1,305,038</u>	<u>\$ 2,324,960</u>	<u>\$ 3,629,998</u>	<u>\$ 714,799</u>

**Proprietary Funds**  
**Statement of Revenue, Expenses, and Changes in Net Position**

**Year Ended June 30, 2019**

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Operating Revenue</b>				
Sale of water	\$ -	\$ 1,471,654	\$ 1,471,654	\$ -
Sewage disposal charges	1,212,975	-	1,212,975	-
Other sales to customers	-	5,750	5,750	-
Miscellaneous	200	57,263	57,463	-
Charges to other funds	-	-	-	292,059
Total operating revenue	1,213,175	1,534,667	2,747,842	292,059
<b>Operating Expenses</b>				
Cost of sewage treatment	560,253	-	560,253	-
Wages and benefits	492,747	978,355	1,471,102	133,382
Supplies	152,934	70,258	223,192	24,113
Heat, light, and power	8,749	78,119	86,868	-
Equipment maintenance and repair	47,443	111,910	159,353	57,558
Insurance expense	7,781	11,078	18,859	12,345
Professional fees	12,100	16,747	28,847	-
Miscellaneous	7,290	36,315	43,605	-
Depreciation	52,888	233,714	286,602	130,973
Total operating expenses	1,342,185	1,536,496	2,878,681	358,371
<b>Operating Loss</b>	(129,010)	(1,829)	(130,839)	(66,312)
<b>Nonoperating Revenue (Expense)</b>				
Investment income	592	2,332	2,924	2,223
Interest expense	-	(55,857)	(55,857)	-
Total nonoperating revenue (expense)	592	(53,525)	(52,933)	2,223
<b>Capital Contributions</b>	118,091	-	118,091	11,000
<b>Change in Net Position</b>	(10,327)	(55,354)	(65,681)	(53,089)
<b>Net Position - Beginning of year</b>	1,315,365	2,380,314	3,695,679	767,888
<b>Net Position - End of year</b>	<b>\$ 1,305,038</b>	<b>\$ 2,324,960</b>	<b>\$ 3,629,998</b>	<b>\$ 714,799</b>

Proprietary Funds  
Statement of Cash Flows

Year Ended June 30, 2019

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,209,738	\$ 1,546,859	\$ 2,756,597	\$ -
Receipts from (payments for) interfund services and reimbursements	1,592	(1,601)	(9)	290,954
Payments to suppliers	(717,059)	(366,658)	(1,083,717)	18,441
Payments to employees	(306,793)	(498,277)	(805,070)	(133,481)
Other payments	-	-	-	(7,831)
Net cash and cash equivalents provided by operating activities	187,478	680,323	867,801	168,083
<b>Cash Flows from Capital and Related Financing Activities</b>				
Receipt of capital grants	118,091	-	118,091	11,000
Purchase of capital assets	(265,683)	(6,444)	(272,127)	(164,413)
Principal and interest paid on capital debt	-	(473,451)	(473,451)	-
Net cash and cash equivalents used in capital and related financing activities	(147,592)	(479,895)	(627,487)	(153,413)
<b>Cash Flows Provided by Investing Activities -</b>				
Interest received on investments	592	2,332	2,924	2,223
<b>Net Increase in Cash and Cash Equivalents</b>	40,478	202,760	243,238	16,893
<b>Cash and Cash Equivalents - Beginning of year</b>	1,434,535	1,310,481	2,745,016	403,849
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,475,013</b>	<b>\$ 1,513,241</b>	<b>\$ 2,988,254</b>	<b>\$ 420,742</b>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 1,475,013	\$ 821,785	\$ 2,296,798	\$ 420,742
Restricted cash	-	691,456	691,456	-
Total cash and cash equivalents	<b>\$ 1,475,013</b>	<b>\$ 1,513,241</b>	<b>\$ 2,988,254</b>	<b>\$ 420,742</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>				
Operating loss	\$ (129,010)	\$ (1,829)	\$ (130,839)	\$ (66,312)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	52,888	233,714	286,602	130,973
Changes in assets and liabilities:				
Receivables	(3,437)	12,192	8,755	(7,831)
Due to and from other funds	1,592	(1,601)	(9)	(1,105)
Prepaid and other assets	(745)	(43,750)	(44,495)	61
Net pension or OPEB asset	172,875	480,078	652,953	(99)
Accounts payable	16,503	1,519	18,022	112,396
Accrued and other liabilities	76,812	-	76,812	-
Net cash and cash equivalents provided by operating activities	<b>\$ 187,478</b>	<b>\$ 680,323</b>	<b>\$ 867,801</b>	<b>\$ 168,083</b>

Fiduciary Funds  
Statement of Fiduciary Net Position

June 30, 2019

	Nonunion Pension Benefit Trust Fund	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 92,342	\$ 2,359
Investments:		
Stocks	407,598	-
Bonds	138,341	-
Real estate	17,527	-
Mutual funds	495,135	-
Receivables	2,110	-
Total assets	1,153,053	<u><u>\$ 2,359</u></u>
<b>Liabilities - Accounts payable</b>	-	<u><u>\$ 2,359</u></u>
<b>Net Position - Held in trust for pension</b>	<u><u>\$ 1,153,053</u></u>	

Fiduciary Funds  
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2019

	<u>Nonunion Pension Benefit Trust Fund</u>
<b>Additions</b>	
Investment income (expense):	
Interest and dividends	\$ 42,223
Net increase in fair value of investments	56,221
Investment-related expenses	<u>(8,241)</u>
Net investment income	90,203
Contributions - Employer	<u>46,650</u>
Total additions	136,853
<b>Deductions</b>	
Benefit payments	83,123
Administrative expenses	<u>270</u>
Total deductions	<u>83,393</u>
<b>Net Increase in Net Position Held in Trust</b>	53,460
<b>Net Position Held in Trust for Pension - Beginning of year</b>	<u>1,099,593</u>
<b>Net Position Held in Trust for Pension - End of year</b>	<u><u>\$ 1,153,053</u></u>

**Component Units  
Statement of Net Position**

**June 30, 2019**

	Downtown Development Authority	Local Development Finance Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 86,720	\$ 14,133	\$ 100,853
Prepaid expenses and other assets	250	200	450
Land held for resale (Note 1)	-	79,880	79,880
Capital assets - Net	4,161	-	4,161
Total assets	91,131	94,213	185,344
<b>Liabilities - Accounts payable</b>	1,609	-	1,609
<b>Net Position</b>			
Net investment in capital assets	4,161	-	4,161
Unrestricted	85,361	94,213	179,574
Total net position	<b>\$ 89,522</b>	<b>\$ 94,213</b>	<b>\$ 183,735</b>

**City of Davison, Michigan**

---

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Downtown Development Authority	\$ 80,374	\$ -	\$ -	\$ -
Local Development Finance Authority	26,322	-	-	-
Total	<b><u>\$ 106,696</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

General revenue:

- Property taxes
- State-shared revenue
- Investment income
- Loss on sale of assets
- Other miscellaneous income

Total general revenue

**Change in Net Position**

**Net Position** - Beginning of year

**Net Position** - End of year

Component Units  
Statement of Activities

Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Local Development Finance Authority	Total
\$ (80,374)	\$ -	\$ (80,374)
-	(26,322)	(26,322)
(80,374)	(26,322)	(106,696)
66,665	4,619	71,284
-	27,211	27,211
19	-	19
-	(138,795)	(138,795)
33,229	-	33,229
99,913	(106,965)	(7,052)
19,539	(133,287)	(113,748)
69,983	227,500	297,483
<b>\$ 89,522</b>	<b>\$ 94,213</b>	<b>\$ 183,735</b>

**Note 1 - Significant Accounting Policies**

***Reporting Entity***

The City of Davison, Michigan (the "City") was incorporated in 1939 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a council-manager form of government and provides the following services, as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

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

**Blended Component Units**

The City of Davison Building Authority's primary purpose is to finance and construct the City's public buildings, and it has been reported as if it were a part of this City's operations because:

- The City has pledged its full faith and credit as a guarantee for the authority's outstanding debt.
- The City is obligated to fund deficits of the authority.

**Discretely Presented Component Units**

*Downtown Development Authority*

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not publish separate financial statements.

*Local Development Finance Authority*

The Local Development Finance Authority (the "LDFA") was created to aid in the creation and retention of jobs and to promote economic growth in defined areas of the City. The LDFA's governing body, which consists of seven individuals, is selected by the City Council. In addition, the LDFA's budget is subject to approval by the City Council. The LDFA does not publish separate financial statements.

***Report Presentation***

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

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

**Note 1 - Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule occur when there are charges between the City's water and sewer function and various other functions. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

***Fund Accounting***

The City accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the City to show the particular expenditures for which specific revenue is used. The various funds are aggregated into three broad fund types:

**Governmental Funds**

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the following funds as "major" governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Major Streets and Local Streets funds account for the City's share of proceeds from gas and weight tax levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The City of Davison, Michigan has decided to show these funds as major governmental funds.

**Proprietary Funds**

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the City). The City reports the following funds as "major" enterprise funds:

- The Water Fund accounts for the operations of the water distribution system.
- The Sewer Fund accounts for the operations of the sewage pumping collection system.

The City's Internal Service Fund is used to allocate insurance costs and machinery and equipment purchases and maintenance to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

**Fiduciary Funds**

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the City's programs. Activities that are reported as fiduciary include the following:

- The Nonunion Pension Benefit Trust Fund accumulates resources for pension benefit payments to retirees and accounts for the activities of the nonunion pension plan.
- The agency funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

**Note 1 - Significant Accounting Policies (Continued)**

**Interfund Activity**

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**Basis of Accounting**

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the City has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred inflow.”

Proprietary funds and fiduciary funds, as applicable, use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Specific Balances and Transactions**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Investments**

Investments are reported at fair value or estimated 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.

**Note 1 - Significant Accounting Policies (Continued)**

**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."

All trade and property tax receivables are shown as net of an allowance for uncollectible amounts. No allowance has been recorded, as management deems all receivables to be collectible.

**Inventories and Prepaid Items**

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

**Restricted Assets**

The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets and at June 30, 2019 are \$691,456.

**Land Held for Resale**

The LDFA holds property with the intent to sell the property in the future. The property is recorded at the lower of cost or market in the financial statements.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired on or after July 1, 2003. Prior to implementation of GASB Statement No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Depreciable Life - Years
Buildings and improvements	10-40
Improvements other than buildings	10-40
Machinery and equipment	5-7
Infrastructure	39-40
Water and sewer lines	40

**Note 1 - Significant Accounting Policies (Continued)**

**Long-term Obligations**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as an "other financing source" and bond discounts as "other financing uses." The General Fund and Inflow and Infiltration Debt Fund are generally used to liquidate governmental long-term debt.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The City reports deferred outflows of resources related to the defined benefit pension plans and the OPEB plan. The deferred outflows of resources related to pension and OPEB are reported in the government-wide financial statements and the Water and Sewer funds. Details of the deferred outflows of resources related to pension and OPEB can be found in Notes 9 and 10, respectively.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The City has various items that qualify for reporting in this category. The deferred inflows of resources related to the defined benefit pension plans are reported in the government-wide financial statements and the Water and Sewer Funds. Details of the deferred inflows of resources related to pension can be found in Note 9. The City has unavailable revenue related to the noncancelable lease receivable reported as a deferred inflow of resources, and it is recognized as an inflow of resources in the period that the amount becomes available in the governmental funds.

**Net Position**

Net position of the City is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

**Net Position Flow Assumption**

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

**Note 1 - Significant Accounting Policies (Continued)**

**Fund Balance Flow Assumptions**

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

**Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

Committed fund balance classification includes amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Property Tax Revenue**

Properties are assessed as of December 1. The related property taxes become a lien on December 1 of the following year. The taxes are due on February 28, after which point they are added to the county tax rolls and penalties and interest are assessed. Taxes are also levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent after August 31, at which time penalties and interest are assessed.

The City's 2018 tax is levied and collectible on July 1 2018 and is recognized as revenue in the year ended June 30, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the City totaled \$107.9 million (a portion of which is abated and a portion of which is captured by the DDA and LDFA), on which taxes levied consisted of 12.7669 mills for operating and 1.3481 mills for repayment of debt. This resulted in \$1.331 million for operating and \$141 thousand for debt retirement.

**Note 1 - Significant Accounting Policies (Continued)**

In 1981, the City's Downtown Development Authority (the "DDA") entered into tax incremental financing agreements with the City; Genesee County, Michigan; Genesee Intermediate Schools; and Davison Community Schools for a 15-year period. In 1996, this plan was renewed with all units of government except Davison Community Schools for an additional 15 years (Proposal A passed by Michigan taxpayers eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in assessed value within the tax increment financing area that can be captured). Also, in 2000, the DDA expanded its boundaries and adopted a new district 2 plan. The current plan was renewed in 2012 and will expire during 2030.

The captured taxable values in excess of the initial taxable values for June 30, 2019 by district are as follows:

District 1	\$	1,941,829
District 2		338,732

The DDA is using the tax increment revenue to improve the plan areas and has created 30-40 jobs through the implementation of this plan.

In 1997, the Local Development Finance Authority (the "LDFA") was created to continue for a 30-year period. The main difference between the LDFA Act and the DDA Act is that the LDFA district services manufacturing areas and does not have to be contiguous property. In 1997, the LDFA entered into tax incremental financing agreements with the City of Davison, Michigan and Genesee County, Michigan. The LDFA's tax incremental revenue is calculated by multiplying the millage (of all entities involved) by the captured taxable value (the difference between the current taxable value and the initial taxable value). The initial taxable values were established in 1997 (\$2,753,325).

The captured taxable value in excess of the initial taxable values for June 30, 2019 is \$307,026.

The LDFA is using the tax increment revenue to improve the plan area and has created 21 jobs as a result of implementation of the tax increment financing plan.

On April 20, 1998, the City Council of the City of Davison, Michigan adopted a resolution to create the City of Davison Brownfield Redevelopment Authority (the "BRA") and to designate the brownfield zone within which the BRA will exercise its powers. The brownfield zone to which the Brownfield Plan (the "Plan") applies consists of the properties within the boundaries of the City of Davison, Michigan. The LDFA has agreed to supervise and control the Brownfield Redevelopment Authority.

The purpose of the Brownfield Plan, to be implemented by the BRA, is to satisfy the requirement for a brownfield plan, as specified in Section 13 of Act No. 381 of the Public Acts of 1996 MCLA 125.2651 et. seq., which is known as the "Brownfield Redevelopment Financing Act."

The BRA has initially identified the following parcels of real estate that require, or which may require, undertaking certain eligible response activities to facilitate redevelopment under the Plan:

1. The former Independent Oil Company site, a facility located within the boundaries of the Downtown Development Authority, contains one or more underground storage tank(s) and contaminated soils and groundwater requiring phase II and baseline environmental assessments, due care, and additional response activities prior to being redeveloped as part of the Downtown Revitalization Plan.
2. The former Davison Oil & Gas site, a facility located within the boundaries of the Downtown Development Authority, consists of two contiguous parcels and a portion of a city street that will eventually be closed as part of the redevelopment. The property contains one or more underground storage tank(s) and contaminated soils and groundwater and requires demolition of dilapidated building(s), phase II and baseline environmental assessments, due care, additional response activities, and infrastructure improvements prior to being redeveloped as part of the Downtown Revitalization Plan.

**Note 1 - Significant Accounting Policies (Continued)**

The duration of the Brownfield Plan shall be 30 years. As of June 30, 2019, there has been no activity for the BRA.

Each authority's tax increment revenue is calculated by multiplying the millage (of all entities involved) times the captured taxable value (the difference between current taxable value and the initial assessed value). The initial assessed values were established in 1981 for the DDA district 1, 1996 for the expanded DDA district 2, and 1997 and 2007 for the LDFA.

**Pension**

The City offers a defined benefit pension plan to its employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General Fund, the Water Fund, and the Sewer Fund primarily are used to liquidate this obligation.

**Other Postemployment Benefit Costs**

The City offers retiree healthcare benefits to retirees. The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The General Fund, the Water Fund, and the Sewer Fund primarily are used to liquidate this obligation.

**Compensated Absences (Leave Time)**

It is the City's policy to permit employees to accumulate earned but unused leave time pay benefits. All leave time is accrued when incurred in the government-wide, proprietary, and fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All other accrued compensated absences are reported in the government-wide financial statements; generally, the funds that report each employee's compensation (the General Fund and the Water and Sewer funds, primarily) are used to liquidate the obligation.

**Proprietary Funds Operating Classification**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer funds and Internal Service Fund is charges to customers for sales and services. The Water and Sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Note 1 - Significant Accounting Policies (Continued)**

**Use of Estimates**

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

**Upcoming Accounting Pronouncements**

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the City's financial statements for the June 30, 2021 fiscal year.

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

**Construction Code Fees**

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated is as follows:

Cumulative shortfall at July 1, 2018	\$ (680,972)
Current year permit revenue	11,078
Related expenses - Direct costs	<u>34,483</u>
Current year shortfall	<u>(23,405)</u>
Cumulative shortfall June 30, 2019	<u><u>\$ (704,377)</u></u>

**Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated several banks for the deposit of its funds.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$5,048,254 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The DDA and LDFA had no bank deposits that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the City had the following investments and maturities:

Fiduciary Funds	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fixed income	\$ 138,341	\$ -	\$ 78,339	\$ 15,098	\$ 44,904

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of June 30, 2019, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Fiduciary Funds</b>			
Fixed income	\$ 60,002	BBB+	S&P
Fixed income	62,458	BBB	S&P
Fixed income	15,881	BBB-	S&P
Mutual funds - Bonds	291,260	not rated	N/A

June 30, 2019

**Note 4 - Fair Value Measurements**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

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

<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2019</u>				
	<u>Quoted Prices in</u>			
	<u>Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance at June 30, 2019</u>
<b>Investments by Fair Value Level</b>				
Fixed income	\$ 138,341	\$ -	\$ -	\$ 138,341
Equity	407,598	-	-	407,598
Mutual funds	495,136	-	-	495,136
Real estate	17,527	-	-	17,527
Total investments by fair value level	<u>\$ 1,058,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,058,602</u>

Fixed-income, equity, mutual funds, and real estate investments classified in Level 1 are valued using prices quoted in active markets for those securities.

June 30, 2019

**Note 5 - Capital Assets**

Capital asset activity of the City's governmental and business-type activities for the year ended June 30, 2019 was as follows:

**Governmental Activities**

	Balance July 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$ 1,470,882	\$ -	\$ -	\$ -	\$ 1,470,882
Construction in progress	13,047	(13,047)	-	-	-
Subtotal	1,483,929	(13,047)	-	-	1,470,882
Capital assets being depreciated:					
Infrastructure	4,757,970	13,047	250,271	-	5,021,288
Buildings and improvements	1,495,241	-	54,807	-	1,550,048
Machinery and equipment	2,018,995	-	172,766	-	2,191,761
Improvements other than buildings	856,507	-	-	-	856,507
Subtotal	9,128,713	13,047	477,844	-	9,619,604
Accumulated depreciation:					
Infrastructure	1,729,735	-	227,811	-	1,957,546
Buildings and improvements	946,168	-	24,596	-	970,764
Machinery and equipment	1,641,421	-	140,890	-	1,782,311
Improvements other than buildings	628,844	-	16,644	-	645,488
Subtotal	4,946,168	-	409,941	-	5,356,109
Net capital assets being depreciated	4,182,545	13,047	67,903	-	4,263,495
Net capital assets	\$ 5,666,474	\$ -	\$ 67,903	\$ -	\$ 5,734,377

**Business-type Activities**

	Balance July 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000
Construction in progress	29,804	(29,804)	-	-	-
Subtotal	30,804	(29,804)	-	-	1,000
Capital assets being depreciated:					
Water and sewer lines	13,051,986	29,804	265,683	-	13,347,473
Buildings and improvements	139,395	-	-	-	139,395
Machinery and equipment	273,277	-	6,444	-	279,721
Subtotal	13,464,658	29,804	272,127	-	13,766,589
Accumulated depreciation:					
Water and sewer lines	6,690,640	-	271,025	-	6,961,665
Buildings and improvements	77,672	-	3,429	-	81,101
Machinery and equipment	186,540	-	12,148	-	198,688
Subtotal	6,954,852	-	286,602	-	7,241,454
Net capital assets being depreciated	6,509,806	29,804	(14,475)	-	6,525,135
Net capital assets	\$ 6,540,610	\$ -	\$ (14,475)	\$ -	\$ 6,526,135

June 30, 2019

**Note 5 - Capital Assets (Continued)**

Capital asset activity for the City's component unit for the year ended June 30, 2019 was as follows:

**Component Unit**

	Balance July 1, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets being depreciated - Equipment and furniture	\$ 24,742	\$ 5,095	\$ -	\$ 29,837
Accumulated depreciation - Equipment and furniture	24,742	934	-	25,676
Net capital assets	<u>\$ -</u>	<u>\$ 4,161</u>	<u>\$ -</u>	<u>\$ 4,161</u>

Depreciation expense was charged to programs of the primary government for the year ended June 30, 2019 as follows:

Governmental activities:	
General government	\$ 154,529
Public safety	3,248
Public works	217,495
Recreation and culture	34,669
Total governmental activities	<u>\$ 409,941</u>
Business-type activities:	
Sewer	\$ 52,888
Water	233,714
Total business-type activities	<u>\$ 286,602</u>

Depreciation expense for the component unit for the year ended June 30, 2019 was as follows:

Component unit activities	\$ 934
---------------------------	--------

**Note 6 - Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2019 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 276
	Sewer Fund	1,257
	Total General Fund	1,533
Major Streets Fund	General Fund	85
Local Streets Fund	General Fund	124
Internal Service Fund	General Fund	1,526
	Total	<u>\$ 3,268</u>

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

June 30, 2019

**Note 7 - Long-term Rent Receivable**

The City entered into a long-term lease with the State of Michigan for space located at 300 North Main Street to be used as a Secretary of State office. This lease calls for an initial term of 10 years with two renewal options of 5 years each. As of June 30, 2019, the lease is in the fourth year of a five-year renewal option. The City also entered into a month-to-month lease with the district court for office space. The rents will be received as detailed below:

Fiscal Years Ending	Amount
2020	\$ 23,475

**Note 8 - Long-term Debt**

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

**Governmental Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable					
Direct borrowings and direct placements - 2007 General Obligation:					
Capital Improvement Bonds	\$ 981,563	\$ -	\$ (85,000)	\$ 896,563	\$ 85,000
Compensated absences	87,091	107,990	(117,474)	77,607	77,607
Total governmental activities long-term debt	<u>\$ 1,068,654</u>	<u>\$ 107,990</u>	<u>\$ (202,474)</u>	<u>\$ 974,170</u>	<u>\$ 162,607</u>

June 30, 2019

**Note 8 - Long-term Debt (Continued)**

**Business-type Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings and direct placements - 2007 General Obligation:					
2003 Water Capital Improvement Bonds	\$ 50,000	\$ -	\$ (50,000)	\$ -	\$ -
2013 Water Capital Improvement Bonds	215,000	-	(40,000)	175,000	40,000
Total direct borrowings and direct placements principal outstanding	265,000	-	(90,000)	175,000	40,000
Other debt - Revenue Bonds - Drinking Water Revolving Loan Fund Debt	2,299,981	-	(325,000)	1,974,981	330,000
Total bonds and contracts payable:	2,564,981	-	(415,000)	2,149,981	370,000
Compensated absences	9,020	10,080	(27,212)	(8,112)	8,112
Total business-type activities long-term debt	<u>\$ 2,574,001</u>	<u>\$ 10,080</u>	<u>\$ (442,212)</u>	<u>\$ 2,141,869</u>	<u>\$ 378,112</u>

**Component Units**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements - 2007 General Obligation:					
Rising Street	\$ 120,281	\$ -	\$ (120,281)	\$ -	\$ -
South State Street	92,680	-	(92,680)	-	-
Total component unit long-term debt	<u>\$ 212,961</u>	<u>\$ -</u>	<u>\$ (212,961)</u>	<u>\$ -</u>	<u>\$ -</u>

**General Obligation Bonds and Contracts**

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. General obligations outstanding at June 30, 2019 are as follows:

	Year Issued	Interest Rates	Maturing	Outstanding
<b>Governmental Activities</b>				
General Obligation Capital Improvement Bonds	2007	1.625%	2028	\$ 896,563
<b>Business-type Activities</b>				
Water Capital Improvement Bonds	2013	1.2% - 4.45%	2023	175,000

**Note 8 - Long-term Debt (Continued)**

**Revenue Bonds**

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Business-type activities utilize revenue bonds to finance the water and sewer system. The City has pledged substantially all of the Water Fund, net of operating expenses, to repay the water revenue bonds listed above. Proceeds from the bonds provided financing for the construction of the water plant. The bonds are payable solely from the net revenue from the water system. The remaining principal and interest to be paid on the bonds is \$2,300,441. During the current year, net revenue of the system was \$235,543, compared to annual debt requirements of \$385,856.

**Debt Service Requirements to Maturity**

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities				
	Direct Borrowings and Direct Placements			Direct Borrowings and Direct Placements		Other Debt		
	Principal	Interest	Total	Principal	Interest	Principal	Interest	Total
2020	\$ 85,000	\$ 13,879	\$ 98,879	\$ 40,000	\$ 3,100	\$ 330,000	\$ 45,250	\$ 418,350
2021	85,000	12,497	97,497	45,000	2,250	335,000	36,937	419,187
2022	85,000	11,116	96,116	45,000	1,350	345,000	28,437	419,787
2023	90,000	9,694	99,694	45,000	450	365,000	19,562	430,012
2024	90,000	8,232	98,232	-	-	374,981	10,312	385,293
2025-2029	461,563	18,883	480,446	-	-	225,000	2,812	227,812
Total	\$ 896,563	\$ 74,301	\$ 970,864	\$ 175,000	\$ 7,150	\$ 1,974,981	\$ 143,310	\$ 2,300,441

**Note 9 - Defined Benefit Pension Plans**

**Plan Description**

**Union and Supervisors**

The City participates in an agent multiple-employer defined benefit pension plan administered by the Michigan Municipal Employees' Retirement System (MERS or the "System") that covers the police patrol, department supervisors, police dispatch/secretaries, and public works employees. The five MERS plans are all contributory defined benefit plans. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmich.com](http://www.mersofmich.com) or in writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

**Nonunion**

The City Council administers the Nonunion Pension Plan of the City of Davison, Michigan, a single-employer defined benefit pension plan that provides pensions for all full-time eligible nonunion employees hired prior to June 30, 2010. Employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. The benefit terms were established by the City Council and may be amended by future council actions. A separate pension board has not been established.

**Benefits Provided**

**Union and Supervisors**

The plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The City has no fiduciary responsibility for the plan. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

**Note 9 - Defined Benefit Pension Plans (Continued)**

*Police Patrol*

All full-time police patrol and dispatcher employees who are members of a class of employees covered by a collective bargaining agreement between the City of Davison, Michigan and a union representing its police employees are eligible to participate in the MERS police patrol pension plan immediately following their hire-in date. As of December 31, 2018, the most recent valuation, there were six active plan members, seven retirees and beneficiaries receiving benefits, and one terminated plan member not yet receiving benefits. There are two divisions under the police patrol pension plan, one that closed as of July 1, 2018 and one that includes new employees hired on or after July 1, 2018.

Per union contract, all participants must contribute 8 percent of their total compensation to MERS for employees included in the closed division or 5 percent of their base wages to MERS for new employees hired on or after July 1, 2018. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service for employees in the closed division or 6 years of service for employees hired on or after July 1, 2018. Participants may elect normal retirement at age 50 with 25 years of service for employees in the closed division or at age 55 and with 25 years of service for employees hired on or after July 1, 2018.

*Department Supervisors*

All full-time department supervisors are eligible to participate in the MERS supervisor pension plan effective immediately following their hire-in date. As of December 31, 2018, the most recent valuation, there were four active plan members, four retirees and beneficiaries receiving benefits, and one terminated plan member not yet receiving benefits.

Participants must contribute 3.5 percent of their total compensation to MERS. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

*Police Dispatchers/Secretaries*

All full-time police department dispatchers/secretaries were eligible to participate in the MERS police dispatchers/secretaries pension plan effective immediately following their hire-in date. The plan is closed to new employees. As of December 31, 2018, the most recent valuation, there were no active plan members, two retirees and beneficiaries receiving benefits, and no terminated plan members not yet receiving benefits.

Participants must contribute 3 percent of their total compensation to MERS. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after six years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**Note 9 - Defined Benefit Pension Plans (Continued)**

*Public Works*

All full-time public works employees are eligible to participate in the MERS DPW plan effective immediately following their hire-in date. As of December 31, 2018, the most recent valuation, there were seven active plan members, six retirees and beneficiaries receiving benefits, and one terminated plan member not yet receiving benefits. There are two divisions under the public works pension plan, one that closed as of July 1, 2012 and one that includes new employees hired on or after July 1, 2012.

Per union contract, participants must contribute 3 percent of their total compensation to MERS for employees included in the closed division or 5 percent of their total compensation to MERS for new employees hired on or after July 1, 2012. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 and with 25 years of service for employees in the closed division or at age 55 and with 25 years of service for employees hired on or after July 1, 2012.

**Nonunion**

The nonunion pension plan provides retirement, disability, and death benefits. Benefit terms are established and amended by the City Council. The most recent valuation is as of June 30, 2019.

***Employees Covered by Benefit Terms***

At the plan measurement date, the following employees were covered by the benefit terms:

	Union and Supervisors	Nonunion
Measurement date	December 31, 2018	June 30, 2019
Inactive plan members or beneficiaries currently receiving benefits	19	5
Inactive plan members entitled to but not yet receiving benefits	3	2
Active plan members	17	2
Total employees covered by the plan	<u>39</u>	<u>9</u>

***Contributions***

**Union and Supervisors**

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

The terms of the plans require that the City make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 3.83 percent to 44.32 percent of covered payroll for the MERS plans. The employee contributions ranged from 2 percent to 8 percent of covered payroll for the MERS plans.

**Note 9 - Defined Benefit Pension Plans (Continued)**

**Nonunion**

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the City Council in accordance with the city charter and plan provisions. For the year ended June 30, 2019, the annual required contribution was \$34,752.

The nonunion pension plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the City Council's adopted asset allocation policy as of December 15, 1998 and is still effective at June 30, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	58.6%
Fixed income	36.2%
Cash	5.2%

***Rate of Return***

For the year ended June 30, 2019, the annual money-weighted rate of return on the nonunion pension plan investments, net of pension plan investment expense, was 8.25 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***Net Pension Liability***

The City chooses a date for each pension plan to measure its net pension liability. This is based on the measurement date of each pension plan, which is determined by an actuarial valuation performed as of that date.

	<u>Union and Supervisors</u>	<u>Nonunion</u>
Measurement date used for the City's net pension liability	December 31, 2018	June 30, 2019

June 30, 2019

**Note 9 - Defined Benefit Pension Plans (Continued)**

Changes in the net pension liability during the measurement year were as follows:

**Union and Supervisors**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2017</b>	\$ 12,917,158	\$ 6,599,605	\$ 6,317,553
Changes for the year:			
Service cost	170,672	-	170,672
Interest	1,010,713	-	1,010,713
Changes in benefits	(21,274)	-	(21,274)
Differences between expected and actual experience	85,919	-	85,919
Contributions - Employer	-	540,069	(540,069)
Contributions - Employee	-	52,091	(52,091)
Net investment loss	-	(254,591)	254,591
Benefit payments, including refunds	(737,164)	(737,164)	-
Administrative expenses	-	(12,690)	12,690
Miscellaneous other charges	-	30,200	(30,200)
Net changes	508,866	(382,085)	890,951
<b>Balance at December 31, 2018</b>	<b>\$ 13,426,024</b>	<b>\$ 6,217,520</b>	<b>\$ 7,208,504</b>

**Nonunion**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2018</b>	\$ 1,292,742	\$ 1,101,657	\$ 191,085
Changes for the year:			
Service cost	3,193	-	3,193
Interest	75,071	-	75,071
Differences between expected and actual experience	19,130	-	19,130
Changes in assumptions	(4,429)	-	(4,429)
Contributions - Employer	-	46,650	(46,650)
Net investment income	-	96,110	(96,110)
Benefit payments, including refunds	(83,123)	(83,123)	-
Administrative expenses	-	(8,241)	8,241
Net changes	9,842	51,396	(41,554)
<b>Balance at June 30, 2019</b>	<b>\$ 1,302,584</b>	<b>\$ 1,153,053</b>	<b>\$ 149,531</b>

The plan's fiduciary net position represents 88.5 percent of the total pension liability.

**Assumption Changes - Nonunion**

For the June 30, 2019 actuarial valuation, there was an assumption change that resulted in a decrease in the calculated total pension liability. The assumptions changed during the year related to the mortality table used. See below for the assumptions used.

June 30, 2019

**Note 9 - Defined Benefit Pension Plans (Continued)**

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

For the year ended June 30, 2019, the City recognized pension expense of \$1,038,788.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 338,652	\$ (33,203)
Changes in assumptions	77,046	(25,682)
Net difference between projected and actual earnings on pension plan investments	473,055	(20,584)
Employer contributions to the plan subsequent to the measurement date	263,978	-
Total	\$ 1,152,731	\$ (79,469)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the \$263,978 employer contributions to the plan made subsequent to the measurement date, which will impact the net pension liability in fiscal year 2019 rather than pension expense.

Years Ending June 30	Amount
2020	\$ 275,711
2021	201,102
2022	124,586
2023	162,085
2024	12,864
Thereafter	32,936
Total	\$ 809,284

***Actuarial Assumptions***

The total pension liability in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Union and Supervisors	Nonunion
Inflation	2.50	2.25
Salary increases (including inflation)	3.75	N/A
Investment rate of return (gross of investment expenses)	8.00	6.00

**Union and Supervisors**

Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent
2. The RP-2014 Employee Mortality Tables
3. The RP-2014 Juvenile Mortality Tables

For disabled retirees, the mortality rates were based on the 50 percent male - 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

**Note 9 - Defined Benefit Pension Plans (Continued)**

**Nonunion**

Mortality rates were based on the 2019 IRS PPA Mortality Table.

***Discount Rate***

As shown below, the discount rate used to measure the total pension liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

	Union and Supervisors	Nonunion
Discount rate used to measure total pension liability	8.00	6.00%

***Projected Cash Flows***

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Investment Rate of Return***

**Union and Supervisors**

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2018, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.15 %
Global fixed income	18.50	1.26
Real assets	13.50	7.22
Diversifying strategies	12.50	5.00

**Note 9 - Defined Benefit Pension Plans (Continued)**

**Nonunion**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. Best estimates of arithmetic real rates of return as of June 30, 2019 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity	58.60 %	6.00 %
Fixed income	36.20	3.50
Cash	5.20	-

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

**Union and Supervisors**

The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the City	\$ 8,869,054	\$ 7,208,504	\$ 5,827,176

**Nonunion**

The following presents the net pension liability of the City, calculated using the discount rate of 6.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.00 percent) or 1 percentage point higher (7.00 percent) than the current rate:

	1 Percent Decrease (5.00%)	Current Discount Rate (6.00%)	1 Percent Increase (7.00%)
Net pension liability of the City	\$ 290,700	\$ 149,351	\$ 29,737

**Note 9 - Defined Benefit Pension Plans (Continued)**

***Pension Plan Fiduciary Net Position***

**Union and Supervisors**

Detailed information about the plan’s fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan’s fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

**Nonunion**

Detailed information about the plan’s fiduciary net position is not available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan’s fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

**Note 10 - Other Postemployment Benefit Plan**

***Plan Description***

The City provides retiree healthcare benefits to eligible employees and their families for employees hired prior to July 1, 2012. For DPW, police, and union office staff employees hired after July 1, 2012, the City provides retiree healthcare benefits to eligible employees, and the employee is required to pay 20 percent of the monthly premiums. Effective July 1, 2018, changes were made for all employees except for nonunion supervisors. For all other departments, new employees are no longer eligible for this OPEB plan, and existing employees must now be at least age 50 and have at least 15 years of service (office workers hired prior to July 1, 2012 only need 5 years of service) to qualify for OPEB coverage.

This is a single-employer plan administered by the City.

***Benefits Provided***

The City’s OPEB plan provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and a portion of the cost of the benefits is covered by the plan.

***Employees Covered by Benefit Terms***

The following members were covered by the benefit terms:

Date of member count	January 1, 2018
Inactive plan members or beneficiaries currently receiving benefits	20
Active plan members	<u>20</u>
Total plan members	<u><u>40</u></u>

June 30, 2019

**Note 10 - Other Postemployment Benefit Plan (Continued)**

**Contributions**

Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2019, the City made payments for postemployment health benefit premiums of \$276,416 and additional contributions of \$55,443.

**Net OPEB Liability**

The City has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability. The June 30, 2019 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2019 measurement date. The June 30, 2019 measurement date total OPEB liability was determined by an actuarial valuation performed as of that date.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
<b>Balance at June 30, 2018</b>	\$ 7,797,615	\$ 640,299	\$ 7,157,316
Changes for the year:			
Service cost	164,824	-	164,824
Interest	593,804	-	593,804
Differences between expected and actual experience	(65,563)	-	(65,563)
Changes in assumptions	580,030	-	580,030
Contributions - Employer	-	331,859	(331,859)
Net investment income	-	20,185	(20,185)
Benefit payments, including refunds	(276,416)	(276,416)	-
Administrative expenses	-	(1,453)	1,453
<b>Net changes</b>	<b>996,679</b>	<b>74,175</b>	<b>922,504</b>
<b>Balance at June 30, 2019</b>	<b>\$ 8,794,294</b>	<b>\$ 714,474</b>	<b>\$ 8,079,820</b>

The plan's fiduciary net position represents 8.1 percent of the total OPEB liability.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2019, the City recognized OPEB expense of \$765,758.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,526	\$ -
Changes in assumptions	463,791	-
Net difference between projected and actual earnings on OPEB plan investments	23,922	-
<b>Total</b>	<b>\$ 490,239</b>	<b>\$ -</b>

**Note 10 - Other Postemployment Benefit Plan (Continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending June 30	Amount
2020	\$ 122,955
2021	122,955
2022	122,947
2023	121,382
Total	<u>\$ 490,239</u>

**Actuarial Assumptions**

Salary increase (including inflation)	4.0 percent
Investment rate of return (net of investment expenses)	7.0 percent
Healthcare cost trend rate	8.25 percent for pre-Medicare grading down 25 basis points each year to an ultimate rate of 5.0 percent in year 2034
	6.75 percent for post-Medicare grading down 25 basis points each year to an ultimate rate of 4.5 percent in year 2028
	5 percent per year for dental
Mortality rates	RP-2014 Generational Mortality Tables projected back to 2006 with Scale MP-2014 and forward with generational life expectancy improvement using Scale MP-2017
	Separate rates for employees and retirees
	Separate rates for males and females

**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Note 10 - Other Postemployment Benefit Plan (Continued)**

**Investment Rate of Return**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2019 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.15 %
Global fixed income	18.50	1.26
Real assets	13.50	7.22
Diversifying strategies	12.50	5.00

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the City, calculated using the discount rate of 7.00 percent, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percent Increase (8.00%)
Net OPEB liability of the city OPEB plan	\$ 9,401,551	\$ 8,079,820	\$ 7,019,671

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 8.25 percent, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.25%)	Current Healthcare Cost Trend Rate (8.25%)	1 Percent Increase (9.25%)
Net OPEB liability of the city OPEB plan	\$ 6,838,971	\$ 8,079,820	\$ 9,637,347

**OPEB Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

**Note 11 - Defined Contribution Pension Plan**

Effective for all union office employees as of June 30, 2010, the City provides defined contribution pension benefits in the City of Davison Pension Plan administered by Foresight Capital Management Advisors. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Union office employees are eligible to participate after working 1,000 hours. As established by employee contracts, the City contributes 6 percent.

The City's total payroll during the current year for the union office employees in the plan was \$141,581. The current year contribution was calculated based on covered payroll of \$141,581, resulting in an employer contribution of \$6,670.

Effective July 1, 2018, the City provides defined contribution pension benefits for all eligible full-time police patrol and dispatcher employees hired on or after July 1, 2018. The plan is administered by MERS. Eligible employees vest 20 percent each year and will be fully vested after five years of service. The City and eligible employees are required to contribute 5 percent of base wages. As of June 30, 2019, no contributions were made to the plan.

**Note 12 - Deferred Compensation Plan**

The City offers its employees the option to participate in a deferred compensation plan. The City of Davison, Michigan has two plans administered by Nationwide and MERS created in accordance with IRC Section 457. The plans, available to substantially all city employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency. The City will match up to 2 percent of eligible union office staff employees' gross wages.

The law allows trusts to be created for the plan assets, thereby insulating the assets from the City's general creditors. The City's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plan's assets are not shown on the financial statements to reflect that the City has no fiduciary or administrative responsibility for this plan.

**Note 13 - Risk Management**

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

**Note 14 - Joint Ventures**

In April 1979, the City of Davison, Michigan entered into a joint venture with Davison Township to create the Senior Citizens Authority (the "Authority"). The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and township. The Authority is governed by a seven-member board appointed by the participating municipalities. The board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

During the year ended June 30, 2019, the City's contribution to the Senior Citizens Authority was \$4,058.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Authority's headquarters.

**Note 14 - Joint Ventures (Continued)**

In January 1972, the City of Davison, Michigan entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority (the "Fire Authority"). The purpose of the Fire Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Fire Authority is governed by a seven-member board appointed by the governing bodies of the City and townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary. The City's equity interest is accounted for in the statement of net position as equity investment in joint venture. The City's equity interest of \$996,796 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2019, the City was billed \$215,310 by the Fire Authority. At year end, the City owed \$50,933 to the Fire Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Authority's headquarters.

In July 2007, the City of Davison, Michigan entered into a joint venture with Davison Township (the "Township") and Davison Community Schools to create Davison Community Enrichment and Recreation. The purpose of Davison Community Enrichment and Recreation is to provide facilities for recreation and activities for community and recreation programs. Davison Community Enrichment and Recreation is governed by a three-member board appointed by the governing bodies of the City, the Township, and Davison Community Schools.

During the year ended June 30, 2019, the City's contribution to Davison Community Enrichment and Recreation was \$45,000.

**Note 15 - Tax Abatements**

The City uses the industrial facilities tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50 percent of the property tax bill for new property (or it can freeze taxable values for rehabilitation properties) for up to 12 years.

For the fiscal year ended June 30, 2019, the City abated \$671 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

---

## Required Supplemental Information

---

Required Supplemental Information  
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,405,500	\$ 1,405,500	\$ 1,397,978	\$ (7,522)
Intergovernmental - State-shared revenue and grants	605,550	655,250	656,180	930
Charges for services	30,000	23,000	17,296	(5,704)
Fines and forfeitures	10,500	10,500	9,085	(1,415)
Licenses and permits	12,000	12,000	13,438	1,438
Interest and rentals	81,300	81,300	82,090	790
Other revenue	249,400	239,400	228,363	(11,037)
<b>Total revenue</b>	<b>2,394,250</b>	<b>2,426,950</b>	<b>2,404,430</b>	<b>(22,520)</b>
<b>Expenditures</b>				
Current services:				
General government:				
Executive expenses	17,750	17,750	15,294	2,456
CEO (manager, supervisor, mayor)	192,775	197,275	192,025	5,250
Elections	9,100	9,100	7,750	1,350
Treasurer	96,600	99,300	96,638	2,662
Assessing	28,100	25,600	23,687	1,913
Board of appeals	850	850	-	850
Clerk	441,900	457,150	430,245	26,905
Hall and grounds	81,450	88,450	86,687	1,763
Less reimbursement from:				
Local streets	(9,025)	(9,025)	(9,025)	-
Major streets	(27,100)	(27,100)	(27,100)	-
Water	(222,950)	(222,950)	(222,950)	-
Sewer	(222,950)	(222,950)	(222,950)	-
Equipment	(49,700)	(49,700)	(49,700)	-
Public safety:				
Police protection	1,154,350	1,182,500	1,151,098	31,402
Fire protection	138,500	220,500	215,310	5,190
Building and code enforcement	37,000	35,500	34,483	1,017
Public works - Public improvements	440,500	496,200	427,218	68,982
Community and economic development	14,100	7,100	2,588	4,512
Recreation and culture:				
Library	106,550	86,550	72,529	14,021
Parks and recreation	149,250	166,250	149,077	17,173
Senior citizens	4,100	4,100	4,058	42
<b>Total expenditures</b>	<b>2,381,150</b>	<b>2,562,450</b>	<b>2,376,962</b>	<b>185,488</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>13,100</b>	<b>(135,500)</b>	<b>27,468</b>	<b>162,968</b>
<b>Other Financing Sources - Transfers in</b>	<b>-</b>	<b>135,500</b>	<b>-</b>	<b>(135,500)</b>
<b>Net Change in Fund Balance</b>	<b>13,100</b>	<b>-</b>	<b>27,468</b>	<b>27,468</b>
<b>Fund Balance - Beginning of year</b>	<b>1,240,393</b>	<b>1,240,393</b>	<b>1,240,393</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 1,253,493</b>	<b>\$ 1,240,393</b>	<b>\$ 1,267,861</b>	<b>\$ 27,468</b>

Required Supplemental Information  
 Budgetary Comparison Schedule - Major Special Revenue Funds  
 Major Streets Fund

**Year Ended June 30, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 465,000	\$ 521,000	\$ 534,968	\$ 13,968
Investment income	200	200	363	163
Total revenue	465,200	521,200	535,331	14,131
<b>Expenditures - Current - Highway and streets</b>	436,625	416,625	370,156	46,469
<b>Excess of Revenue Over Expenditures</b>	28,575	104,575	165,175	60,600
<b>Other Financing Uses - Transfers out</b>	(28,575)	(104,575)	-	104,575
<b>Net Change in Fund Balance</b>	-	-	165,175	165,175
<b>Fund Balance - Beginning of year</b>	534,830	534,830	534,830	-
<b>Fund Balance - End of year</b>	<u>\$ 534,830</u>	<u>\$ 534,830</u>	<u>\$ 700,005</u>	<u>\$ 165,175</u>

**City of Davison, Michigan**

Required Supplemental Information  
 Budgetary Comparison Schedule - Major Special Revenue Funds (Continued)  
 Local Streets Fund

**Year Ended June 30, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 137,000	\$ 137,000	\$ 141,267	\$ 4,267
Investment income	200	200	341	141
Total revenue	137,200	137,200	141,608	4,408
<b>Expenditures - Current - Highway and streets</b>	121,825	161,825	110,525	51,300
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	15,375	(24,625)	31,083	55,708
<b>Other Financing Sources - Transfers in</b>	-	24,625	-	(24,625)
<b>Net Change in Fund Balance</b>	15,375	-	31,083	31,083
<b>Fund Balance - Beginning of year</b>	449,454	449,454	449,454	-
<b>Fund Balance - End of year</b>	<u>\$ 464,829</u>	<u>\$ 449,454</u>	<u>\$ 480,537</u>	<u>\$ 31,083</u>

Schedule of Changes in the Net Pension Liability and Related Ratios - Union and Supervisors Pension Plan

	Years Ended June 30				
	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>					
Service cost	\$ 170,672	\$ 162,910	\$ 158,862	\$ 156,616	\$ 156,189
Interest	1,010,713	947,829	929,421	875,272	842,204
Changes in benefit terms	(21,274)	-	-	-	-
Differences between expected and actual experience	85,919	437,509	(132,806)	105,084	-
Changes in assumptions	-	-	-	521,190	-
Benefit payments, including refunds	(737,164)	(794,997)	(659,807)	(641,953)	(553,619)
<b>Net Change in Total Pension Liability</b>	508,866	753,251	295,670	1,016,209	444,774
<b>Total Pension Liability - Beginning of year</b>	12,917,158	12,163,907	11,868,237	10,852,028	10,407,254
<b>Total Pension Liability - End of year</b>	<b>\$ 13,426,024</b>	<b>\$ 12,917,158</b>	<b>\$ 12,163,907</b>	<b>\$ 11,868,237</b>	<b>\$ 10,852,028</b>
<b>Plan Fiduciary Net Position</b>					
Contributions - Employer	\$ 540,069	\$ 505,329	\$ 431,409	\$ 390,166	\$ 339,648
Contributions - Member	52,091	50,092	45,748	44,013	48,741
Net investment (loss) income	(254,591)	786,708	630,729	(85,985)	361,710
Administrative expenses	(12,690)	(12,479)	(12,461)	(12,814)	(13,261)
Benefit payments, including refunds	(737,164)	(794,997)	(659,807)	(641,953)	(553,619)
Other	30,200	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	(382,085)	534,653	435,618	(306,573)	183,219
<b>Plan Fiduciary Net Position - Beginning of year</b>	6,599,605	6,064,952	5,629,334	5,935,907	5,752,688
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 6,217,520</b>	<b>\$ 6,599,605</b>	<b>\$ 6,064,952</b>	<b>\$ 5,629,334</b>	<b>\$ 5,935,907</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 7,208,504</b>	<b>\$ 6,317,553</b>	<b>\$ 6,098,955</b>	<b>\$ 6,238,903</b>	<b>\$ 4,916,121</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	46.31 %	51.09 %	49.86 %	47.43 %	54.70 %
<b>Covered Payroll</b>	\$ 1,016,077	\$ 948,886	\$ 956,848	\$ 910,098	\$ 946,636
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	709.44 %	665.79 %	637.40 %	685.52 %	519.33 %



Required Supplemental Information

Schedule of Changes in the Net Pension Liability and Related Ratios - Nonunion Pension Plan

Years Ended June 30

	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>					
Service cost	\$ 3,193	\$ 3,011	\$ 2,944	\$ -	\$ -
Interest	75,071	72,403	71,026	69,337	70,505
Differences between expected and actual experience	19,130	8,826	3,702	45,561	13,451
Changes in assumptions	(4,429)	43,339	(135,820)	-	98,668
Benefit payments, including refunds	(83,123)	(83,123)	(62,321)	(51,921)	(51,921)
<b>Net Change in Total Pension Liability</b>	9,842	44,456	(120,469)	62,977	130,703
<b>Total Pension Liability - Beginning of year</b>	1,292,742	1,248,286	1,368,755	1,305,778	1,175,075
<b>Total Pension Liability - End of year</b>	<b>\$ 1,302,584</b>	<b>\$ 1,292,742</b>	<b>\$ 1,248,286</b>	<b>\$ 1,368,755</b>	<b>\$ 1,305,778</b>
<b>Plan Fiduciary Net Position</b>					
Contributions - Employer	\$ 46,650	\$ 40,700	\$ 71,850	\$ 40,550	\$ 22,550
Net investment income	96,110	52,387	86,736	19,765	11,337
Administrative expenses	(8,241)	(8,803)	(33,988)	(39,093)	(15,846)
Benefit payments, including refunds	(83,123)	(83,123)	(62,321)	(51,921)	(51,921)
<b>Net Change in Plan Fiduciary Net Position</b>	51,396	1,161	62,277	(30,699)	(33,880)
<b>Plan Fiduciary Net Position - Beginning of year</b>	1,101,657	1,100,496	1,038,219	1,068,918	1,102,798
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 1,153,053</b>	<b>\$ 1,101,657</b>	<b>\$ 1,100,496</b>	<b>\$ 1,038,219</b>	<b>\$ 1,068,918</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 149,531</b>	<b>\$ 191,085</b>	<b>\$ 147,790</b>	<b>\$ 330,536</b>	<b>\$ 236,860</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	88.52 %	85.22 %	88.16 %	75.85 %	81.86 %
<b>Covered Payroll</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	-	-	-	-	-

Required Supplemental Information  
Schedule of Pension Investment Returns - Nonunion Pension Plan

	Last Eight Fiscal Years Years Ended June 30							
	2019	2018	2017	2016	2015	2014	2013	2012
Annual money-weighted rate of return, net of investment expense	8.25 %	4.67 %	8.47 %	1.03 %	1.05 %	3.20 %	13.00 %	11.80 %

Required Supplemental Information  
Schedule of Pension Contributions - Nonunion Pension Plan

**Last Ten Fiscal Years  
Years Ended June 30**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 34,752	\$ 39,165	\$ 34,677	\$ 64,484	\$ 40,506	\$ 22,539	\$ 36,587	\$ 28,960	\$ 16,490	\$ 23,332
Contributions in relation to the actuarially determined contribution	46,650	40,700	71,850	40,550	22,550	36,590	28,960	36,500	257,652	114,000
<b>Contribution Excess (Deficiency)</b>	<b>\$ 11,898</b>	<b>\$ 1,535</b>	<b>\$ 37,173</b>	<b>\$ (23,934)</b>	<b>\$ (17,956)</b>	<b>\$ 14,051</b>	<b>\$ (7,627)</b>	<b>\$ 7,540</b>	<b>\$ 241,162</b>	<b>\$ 90,668</b>
<b>Covered Payroll</b>	\$ 147,585	\$ 143,135	\$ 119,618	\$ -	\$ -	\$ -	\$ 179,883	\$ 172,365	\$ 268,480	\$ 284,085
<b>Contributions as a Percentage of Covered Employee Payroll</b>	31.61 %	28.43 %	60.07 %	- %	- %	- %	16.10 %	21.18 %	95.97 %	40.13 %

**Notes to Schedule of Pension Contributions - Nonunion Pension Plan**

Actuarial valuation information relative to the determination of contributions:

Valuation date Describe when the valuations are performed, for example: Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	3.2 years
Asset valuation method	Market value
Inflation	2.25 percent
Salary increase	2.25 percent
Investment rate of return	6.00 percent
Retirement age	Age 60
Mortality	2019 PPA IRS PPA Mortality Table
Other information	The mortality rate assumptions have been updated to the 2019 PPA funding table.

Required Supplemental Information  
Schedule of Changes in the Net OPEB Liability and Related Ratios

	<b>Years Ended June 30</b>	
	2019	2018
<b>Total OPEB Liability</b>		
Service cost	\$ 164,824	\$ 147,365
Interest	593,804	559,825
Changes in benefit terms	(65,563)	-
Differences between expected and actual experience	-	4,216
Changes in assumptions	580,030	-
Benefit payments, including refunds	(276,416)	(269,635)
<b>Net Change in Total OPEB Liability</b>	996,679	441,771
<b>Total OPEB Liability - Beginning of year</b>	7,797,615	7,355,844
<b>Total OPEB Liability - End of year</b>	<b>\$ 8,794,294</b>	<b>\$ 7,797,615</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 331,859	\$ 325,494
Net investment income	20,185	46,113
Administrative expenses	(1,453)	(1,498)
Benefit payments, including refunds	(276,416)	(269,635)
<b>Net Change in Plan Fiduciary Net Position</b>	74,175	100,474
<b>Plan Fiduciary Net Position - Beginning of year</b>	640,299	539,825
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 714,474</b>	<b>\$ 640,299</b>
<b>Net OPEB Liability - Ending</b>	<b>\$ 8,079,820</b>	<b>\$ 7,157,316</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	8.12 %	8.21 %
<b>Covered Employee Payroll</b>	\$ 1,182,981	\$ 1,117,785
<b>Net OPEB Liability as a Percentage of Covered Employee Payroll</b>	683.01 %	640.31 %

Required Supplemental Information  
Schedule of OPEB Contributions

Last Ten Fiscal Years  
Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 863,173	\$ 787,220	\$ 1,551,921	\$ 1,551,921	\$ 1,629,984	\$ 1,391,341	\$ 947,812	\$ 867,468	\$ 897,732	\$ 846,446
Contributions in relation to the actuarially determined contribution	331,859	325,494	324,648	324,440	305,050	250,438	261,078	156,146	169,053	299,633
<b>Contribution Deficiency</b>	<b>\$ (531,314)</b>	<b>\$ (461,726)</b>	<b>\$ (1,227,273)</b>	<b>\$ (1,227,481)</b>	<b>\$ (1,324,934)</b>	<b>\$ (1,140,903)</b>	<b>\$ (686,734)</b>	<b>\$ (711,322)</b>	<b>\$ (728,679)</b>	<b>\$ (546,813)</b>
<b>Covered Employee Payroll</b>	<b>\$ 1,182,981</b>	<b>\$ 1,117,785</b>	<b>\$ 1,126,756</b>	<b>\$ 1,126,983</b>	<b>\$ 1,086,461</b>	<b>\$ 1,138,413</b>	<b>\$ 1,144,442</b>	<b>\$ 1,110,236</b>	<b>\$ 1,167,387</b>	<b>\$ 1,536,582</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>28.05 %</b>	<b>29.12 %</b>	<b>28.81 %</b>	<b>28.79 %</b>	<b>28.08 %</b>	<b>22.00 %</b>	<b>22.81 %</b>	<b>14.06 %</b>	<b>14.48 %</b>	<b>19.50 %</b>

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	21 years
Asset valuation method	10-year smoothed
Healthcare cost trend rates	8.25 percent for pre-Medicare grading down 25 basis points each year to an ultimate rate of 5.0 percent in year 2034 6.75 percent for post-Medicare grading down 25 basis points each year to an ultimate rate of 4.5 percent in year 2028 5 percent per year for dental
Salary increase	4.00 percent
Investment rate of return	7.00 percent
Retirement age	60 years old
Mortality	1. RP-2014 Generational Mortality Tables projected back to 2006 with Scale MP-2014 and forward with generational life expectancy improvement using Scale MP-2017 2. Separate rates for employees and retirees 3. Separate rates for males and females
Other information	None

***Budgetary Information***

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the second Monday in May, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing on the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund and special revenue funds. Informational summaries of projected revenue and expenditures are provided for all other city funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance and in accordance with Public Act 621 of 1978 of the State of Michigan. All funds' budgets are enacted on a departmental basis.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Budget appropriations lapse at year end.
6. The original budget was amended during the year to be in compliance with the city charter and applicable state law.

---

## Other Supplemental Information

---

***Special Revenue Fund***

The Refuse Collection Fund is used to accumulate resources for the payment of sanitation expenditures.

***Debt Service Fund***

The Inflow and Infiltration Debt Fund was established to accumulate resources for the payment of the 2007 General Obligation Capital Improvement Bonds and other capital needs related to inflow and infiltration.

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds**

**June 30, 2019**

	Special Revenue Fund	Debt Service Fund		Inflow and Infiltration Debt Fund	Total Nonmajor Governmental Funds
	Refuse Collection Fund				
<b>Assets - Cash and investments</b>	<b>\$ 58,658</b>	<b>\$ 632,881</b>	<b>\$</b>	<b>691,539</b>	<b>\$ 691,539</b>
<b>Liabilities - Accounts payable</b>	\$ 19,780	\$ 2,610	\$	22,390	\$ 22,390
<b>Fund Balances</b>					
Restricted:					
Debt service	-	630,271		630,271	630,271
Rubbish collections	38,878	-		38,878	38,878
Total fund balances	38,878	630,271		669,149	669,149
Total liabilities and fund balances	<b>\$ 58,658</b>	<b>\$ 632,881</b>	<b>\$</b>	<b>691,539</b>	<b>\$ 691,539</b>

**City of Davison, Michigan**

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in Fund**  
**Balances**  
**Nonmajor Governmental Funds**

**Year Ended June 30, 2019**

	Special Revenue Fund	Debt Service Fund	
	Refuse Collection Fund	Inflow and Infiltration Debt Fund	Total Nonmajor Governmental Funds
<b>Revenue</b>			
Property taxes	\$ -	\$ 141,278	\$ 141,278
Special assessments	309,750	-	309,750
Intergovernmental - State grant revenue	-	56,861	56,861
Interest and rentals - Investment earnings	38	4,124	4,162
Total revenue	309,788	202,263	512,051
<b>Expenditures</b>			
Current services - Public works	280,576	59,343	339,919
Debt service:			
Principal	-	85,000	85,000
Interest on long-term debt	-	15,260	15,260
Total expenditures	280,576	159,603	440,179
<b>Net Change in Fund Balances</b>	29,212	42,660	71,872
<b>Fund Balances - Beginning of year</b>	9,666	587,611	597,277
<b>Fund Balances - End of year</b>	<b>\$ 38,878</b>	<b>\$ 630,271</b>	<b>\$ 669,149</b>