

# **City of Davison, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2017**

# City of Davison, Michigan

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# City of Davison, Michigan

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## 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, 2017 and the related notes to the financial statements, which collectively comprise the City of Davison, Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2017 and the respective changes in its financial position and 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 basic 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 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 18, 2017

# City of Davison, Michigan

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## Management's Discussion and Analysis

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, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

### Financial Highlights

- The City's total net position is \$2.4 million.
- The City's overall unrestricted net position is a deficit of \$8.4 million.
- General Fund expenditures exceed revenue by \$332 thousand, leaving the General Fund with a fund balance of \$1,137,236.

### 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 us 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.

# City of Davison, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

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			Percent Change
	2016	2017	Change	
<b>Assets</b>				
Other assets	\$ 4,340,246	\$ 3,958,232	\$ (382,014)	-9%
Capital assets	<u>5,825,372</u>	<u>5,891,840</u>	<u>66,468</u>	1%
Total assets	10,165,618	9,850,072	(315,546)	-3%
<b>Deferred Outflows of Resources</b>	1,001,333	699,427	(301,906)	-30%
<b>Liabilities</b>				
Current liabilities	487,641	330,083	(157,558)	-32%
Long-term liabilities	<u>9,760,280</u>	<u>10,320,380</u>	<u>560,100</u>	6%
Total liabilities	10,247,921	10,650,463	402,542	4%
<b>Deferred Inflows of Resources</b>	<u>6,228</u>	<u>169,808</u>	<u>163,580</u>	
<b>Net Position</b>				
Investment in capital assets	4,683,809	4,830,277	146,468	3%
Restricted	1,108,088	1,373,999	265,911	24%
Unrestricted	<u>(4,879,095)</u>	<u>(6,475,048)</u>	<u>(1,595,953)</u>	-33%
Total net position	<u>\$ 912,802</u>	<u>\$ (270,772)</u>	<u>\$ (1,183,574)</u>	-130%

# City of Davison, Michigan

## Management's Discussion and Analysis (Continued)

	Governmental Activities			Percent Change
	2016	2017	Change	
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 638,529	\$ 694,125	\$ 55,596	9%
Operating grants	415,589	483,671	68,082	16%
Capital grants	96,652	190,016	93,364	100%
General revenue:				
Property taxes	1,428,558	1,467,294	38,736	3%
State-shared revenue	551,242	579,177	27,935	5%
Investment earnings	7,486	6,852	(634)	-8%
Other revenue	196,684	177,365	(19,319)	-10%
Total revenue	3,334,740	3,598,500	263,760	8%
<b>Program Expenses</b>				
General government	1,005,338	1,056,327	50,989	5%
Public safety	1,990,514	1,843,889	(146,625)	-7%
Public works	1,329,645	1,271,287	(58,358)	-4%
Community and economic development	4,345	258,184	253,839	5842%
Recreation and cultural	321,174	334,812	13,638	4%
Interest on long-term debt	18,875	17,575	(1,300)	-7%
Total expenses	4,669,891	4,782,074	112,183	2%
<b>Change in Net Position</b>	<b>\$ (1,335,151)</b>	<b>\$ (1,183,574)</b>	<b>\$ 151,577</b>	<b>-11%</b>

The governmental net position decreased 130 percent from a year ago - decreasing from \$912,802 to a deficit of (\$270,772).

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$1,595,953 for the governmental activities. This represents a decrease of approximately 33 percent. The current level of unrestricted net position for our governmental activities stands at (\$6,475,048).

The City's total governmental revenue increased by \$263,760 or 8 percent.

Expenses increased by \$112,183 or 2 percent during the year.



# City of Davison, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

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

	Business-type Activities			Percent Change
	2016	2017	Change	
<b>Assets</b>				
Other assets	\$ 2,882,141	\$ 3,042,762	\$ 160,621	6%
Capital assets	6,714,555	6,689,478	(25,077)	0%
Total assets	9,596,696	9,732,240	135,544	1%
<b>Deferred Outflows of Resources</b>	361,298	214,123	(147,175)	
<b>Liabilities</b>				
Current liabilities	499,854	520,773	20,919	4%
Long-term liabilities	6,945,676	6,703,436	(242,240)	-3%
Total liabilities	7,445,530	7,224,209	(221,321)	-3%
<b>Deferred Inflows of Resources</b>	-	27,889	27,889	
<b>Net Position</b>				
Investment in capital assets	3,344,574	3,719,497	374,923	11%
Restricted	1,205,081	907,369	(297,712)	-25%
Unrestricted	(2,037,191)	(1,932,601)	104,590	5%
Total net position	<u>\$ 2,512,464</u>	<u>\$ 2,694,265</u>	<u>\$ 181,801</u>	7%

	Business-type Activities			Percent Change
	2016	2017	Change	
Operating revenue	\$ 2,659,853	\$ 2,689,867	\$ 30,014	1%
Operating expenses, other than depreciation	1,955,913	2,126,770	170,857	9%
Depreciation and amortization	295,259	306,424	11,165	4%
<b>Operating Income</b>	408,681	256,673	(152,008)	37%
Interest income	2,327	2,840	513	22%
Interest expense	88,637	77,712	(10,925)	-12%
<b>Change in Net Position</b>	<u>\$ 322,371</u>	<u>\$ 181,801</u>	<u>\$ (140,570)</u>	44%

The net position of business-type activities increased 7 percent from a year ago, increasing from \$2,512,464 to \$2,694,265.

# City of Davison, Michigan

## Management's Discussion and Analysis (Continued)

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased by \$104,590. This represents an increase of approximately 5 percent. The current level of unrestricted net position stands at (\$1,932,601).

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

Our analysis of the City's major funds begins on page 12, 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 2017 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 \$1.2 million in 2017. Police services are partially supported by a 1.4986 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 \$125 thousand under budget. That resulted in an overall decrease in General Fund fund balance of \$332 thousand, which is a lower decrease than the amended budgeted decrease of \$396 thousand.

### **Capital Asset and Debt Administration**

At the end of 2017, the City had invested approximately \$8.5 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 \$1.1 million in bonds and other debt outstanding for governmental activities and \$3.0 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 1.3487 mill levy approved by the voters. Additional information on the City's long-term debt can be found in Note 8 of this report.

# **City of Davison, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.

# City of Davison, Michigan

## Statement of Net Position June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 2,663,118	\$ 1,993,006	\$ 4,656,124	\$ 167,114
Receivables	352,663	655,011	1,007,674	-
Internal balances	1,371	(1,371)	-	-
Inventory	35,300	-	35,300	-
Prepaid expenses and other assets	71,470	10,260	81,730	975
Restricted assets (Note 1)	-	385,856	385,856	-
Investment in joint ventures (Note 15)	834,310	-	834,310	-
Land held for resale (Note 1)	-	-	-	293,675
Capital assets (Note 5):				
Assets not subject to depreciation	1,480,115	1,000	1,481,115	-
Assets subject to depreciation	4,411,725	6,688,478	11,100,203	-
<b>Total assets</b>	<b>9,850,072</b>	<b>9,732,240</b>	<b>19,582,312</b>	<b>461,764</b>
<b>Deferred Outflows of Resources</b>				
(Notes 9 and 10)	699,427	214,123	913,550	-
<b>Liabilities</b>				
Accounts payable	125,018	75,447	200,465	4,686
Due to other governmental units	4,486	-	4,486	-
Deposits	-	12,059	12,059	-
Accrued liabilities and other	40,937	28,267	69,204	-
Noncurrent liabilities:				
Due within one year (Note 8):				
Compensated absences	79,642	10,653	90,295	-
Current portion of long-term debt	80,000	405,000	485,000	-
Due in more than one year:				
Net OPEB obligation (Note 11)	4,799,778	2,420,096	7,219,874	-
Net pension liability (Notes 9 and 10)	4,539,039	1,707,706	6,246,745	-
Long-term debt (Note 8)	981,563	2,564,981	3,546,544	212,961
<b>Total liabilities</b>	<b>10,650,463</b>	<b>7,224,209</b>	<b>17,874,672</b>	<b>217,647</b>
<b>Deferred Inflows of Resources - Deferred</b>				
inflows related to pensions (Notes 9 and 10)	169,808	27,889	197,697	-
<b>Net Position</b>				
Net investment in capital assets	4,830,277	3,719,497	8,549,774	-
Restricted for:				
Street maintenance and construction	798,518	-	798,518	-
Debt service	556,407	-	556,407	-
Rubbish collections	19,074	-	19,074	-
Capital projects	-	521,513	521,513	-
Revenue bond reserve	-	385,856	385,856	-
Unrestricted	(6,475,048)	(1,932,601)	(8,407,649)	244,117
<b>Total net position</b>	<b>\$ (270,772)</b>	<b>\$ 2,694,265</b>	<b>\$ 2,423,493</b>	<b>\$ 244,117</b>

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

# City of Davison, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,056,327	\$ 392,738	\$ -	\$ 17,005
Public safety	1,843,889	24,842	-	-
Public works	1,271,287	269,700	483,671	-
Community and economic development	258,184	-	-	173,011
Recreation and culture	334,812	6,845	-	-
Interest on long-term debt	17,575	-	-	-
Total governmental activities	4,782,074	694,125	483,671	190,016
Business-type activities:				
Sewer Fund	1,123,360	1,195,687	-	-
Water Fund	1,387,546	1,494,180	-	-
Total business-type activities	2,510,906	2,689,867	-	-
Total primary government	<b>\$ 7,292,980</b>	<b>\$ 3,383,992</b>	<b>\$ 483,671</b>	<b>\$ 190,016</b>
Component units:				
Downtown Development Authority	\$ 94,303	\$ -	\$ -	\$ -
Local Development Finance Authority	4,760	-	-	-
Total component units	<b>\$ 99,063</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income				
Franchise fees				
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, 2017**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (646,584)	\$ -	\$ (646,584)	\$ -
(1,819,047)	-	(1,819,047)	-
(517,916)	-	(517,916)	-
(85,173)	-	(85,173)	-
(327,967)	-	(327,967)	-
(17,575)	-	(17,575)	-
(3,414,262)	-	(3,414,262)	-
-	72,327	72,327	-
-	106,634	106,634	-
-	178,961	178,961	-
(3,414,262)	178,961	(3,235,301)	-
-	-	-	(94,303)
-	-	-	(4,760)
-	-	-	(99,063)
1,467,294	-	1,467,294	65,829
579,177	-	579,177	14,167
6,852	2,840	9,692	10
92,979	-	92,979	-
84,386	-	84,386	35,080
2,230,688	2,840	2,233,528	115,086
(1,183,574)	181,801	(1,001,773)	16,023
912,802	2,512,464	3,425,266	228,094
<b>\$ (270,772)</b>	<b>\$ 2,694,265</b>	<b>\$ 2,423,493</b>	<b>\$ 244,117</b>

# City of Davison, Michigan

## Governmental Funds Balance Sheet June 30, 2017

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 1,036,922	\$ 347,641	\$ 377,692	\$ 576,409	\$ 2,338,664
Receivables:					
Property taxes receivable	569	-	-	-	569
Other receivables	56,728	-	-	-	56,728
Due from other governmental units	211,324	58,149	20,176	-	289,649
Due from other funds (Note 6)	1,371	-	-	-	1,371
Inventory	35,300	-	-	-	35,300
Prepaid expenses and other assets	67,420	1,178	810	-	69,408
<b>Total assets</b>	<b>\$ 1,409,634</b>	<b>\$ 406,968</b>	<b>\$ 398,678</b>	<b>\$ 576,409</b>	<b>\$ 2,791,689</b>
<b>Liabilities</b>					
Accounts payable	\$ 117,517	\$ 1,471	\$ 1,311	\$ 928	\$ 121,227
Due to other governmental units	4,486	-	-	-	4,486
Accrued liabilities and other	31,196	1,412	2,934	-	35,542
<b>Total liabilities</b>	<b>153,199</b>	<b>2,883</b>	<b>4,245</b>	<b>928</b>	<b>161,255</b>
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue (Note 1)	119,199	-	-	-	119,199
<b>Fund Balances</b>					
Nonspendable:					
Inventory	35,300	-	-	-	35,300
Prepays	67,420	1,178	810	-	69,408
Restricted:					
Street maintenance and construction	-	402,907	393,623	-	796,530
Debt service	-	-	-	556,407	556,407
Rubbish collections	-	-	-	19,074	19,074
Assigned - Subsequent year's budget	31,730	-	-	-	31,730
Unassigned	1,002,786	-	-	-	1,002,786
<b>Total fund balances</b>	<b>1,137,236</b>	<b>404,085</b>	<b>394,433</b>	<b>575,481</b>	<b>2,511,235</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,409,634</b>	<b>\$ 406,968</b>	<b>\$ 398,678</b>	<b>\$ 576,409</b>	<b>\$ 2,791,689</b>

# City of Davison, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2017

<b>Fund Balance Reported in Governmental Funds</b>	\$ 2,511,235
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	5,422,435
Investments in joint ventures are not financial resources and are not reported in the funds	834,310
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	119,199
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,061,563)
Accrued interest is not due and payable in the current period and is not reported in the funds	(4,313)
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	(79,642)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(4,799,778)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(4,539,039)
Deferred outflows of resources related to pensions	699,427
Deferred inflows of resources related to pensions	(169,808)
Internal Service Funds are included as part of governmental activities	<u>796,765</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ (270,772)</u></b>



# City of Davison, Michigan

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
<b>Revenue</b>					
Property taxes	\$ 1,332,557	\$ -	\$ -	\$ 134,737	\$ 1,467,294
Licenses and permits	15,345	-	-	-	15,345
Federal grants	173,011	-	-	-	173,011
State-shared revenue and grants	597,794	371,370	112,301	-	1,081,465
Charges for services	18,255	-	-	266,400	284,655
Fines and forfeitures	11,486	-	-	-	11,486
Investment income	4,054	158	158	573	4,943
Rental income	75,619	-	-	-	75,619
Other revenue:					
Cable franchise fees	92,979	-	-	-	92,979
Miscellaneous income	127,712	-	-	-	127,712
Total revenue	2,448,812	371,528	112,459	401,710	3,334,509
<b>Expenditures</b>					
Current:					
General government	590,335	-	-	-	590,335
Public safety	1,231,024	-	-	-	1,231,024
Public works	433,611	154,393	99,500	267,993	955,497
Community and economic development	258,184	-	-	-	258,184
Recreation and culture	267,879	-	-	-	267,879
Debt service:					
Principal	-	-	-	80,000	80,000
Interest on long-term debt	-	-	-	17,900	17,900
Total expenditures	2,781,033	154,393	99,500	365,893	3,400,819
<b>Excess of Revenue (Under)</b>					
<b>Over Expenditures</b>	(332,221)	217,135	12,959	35,817	(66,310)
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 6)	-	-	50,900	-	50,900
Transfers out (Note 6)	-	(50,900)	-	-	(50,900)
<b>Net Change in Fund Balances</b>	(332,221)	166,235	63,859	35,817	(66,310)
<b>Fund Balances - Beginning of year</b>	1,469,457	237,850	330,574	539,664	2,577,545
<b>Fund Balances - End of year</b>	<b>\$ 1,137,236</b>	<b>\$ 404,085</b>	<b>\$ 394,433</b>	<b>\$ 575,481</b>	<b>\$ 2,511,235</b>

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

# City of Davison, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

**Net Change in Fund Balances - Total Governmental Funds** \$ (66,310)

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	223,564
Depreciation expense	(251,560)
Net book value of assets disposed of	(100)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	1,824
---	-------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	80,000
---	--------

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	(1,771)
---	---------

Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(736,441)
---	-----------

Change in investment in joint venture	18,789
---------------------------------------	--------

Change in accrued interest payable	325
------------------------------------	-----

The change in the net pension liability is recorded when incurred in the statement of activities	96,341
--	--------

Deferred outflows of resources (related to pensions)	(301,906)
--	-----------

Deferred inflows of resources (related to pensions)	(169,808)
---	-----------

Internal Service Funds are included as part of governmental activities	<u>(76,521)</u>
--	-----------------

**Change in Net Position of Governmental Activities** **\$ (1,183,574)**

# City of Davison, Michigan

## Proprietary Funds Statement of Net Position June 30, 2017

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,171,705	\$ 821,301	\$ 1,993,006	\$ 324,454
Receivables:				
Receivables from sales to customers on account	293,498	361,513	655,011	-
Other receivables	-	-	-	5,717
Prepaid expenses and other assets	3,040	7,220	10,260	2,062
Total current assets	1,468,243	1,190,034	2,658,277	332,233
Noncurrent assets:				
Restricted assets (Note 1)	-	385,856	385,856	-
Capital assets (Note 5)	910,459	5,779,019	6,689,478	469,405
Total noncurrent assets	910,459	6,164,875	7,075,334	469,405
Total assets	2,378,702	7,354,909	9,733,611	801,638
<b>Deferred Outflows of Resources</b> (Note 9)	84,119	130,004	214,123	-
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	35,534	39,913	75,447	3,791
Due to other funds (Note 6)	457	914	1,371	-
Deposits	-	12,059	12,059	-
Accrued liabilities and other	2,021	26,246	28,267	1,082
Compensated absences (Note 8)	1,985	8,668	10,653	-
Current portion of long-term debt (Note 8)	-	405,000	405,000	-
Total current liabilities	39,997	492,800	532,797	4,873
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	955,205	1,464,891	2,420,096	-
Net pension liability (Note 9)	670,884	1,036,822	1,707,706	-
Long-term debt (Note 8)	-	2,564,981	2,564,981	-
Total noncurrent liabilities	1,626,089	5,066,694	6,692,783	-
Total liabilities	1,666,086	5,559,494	7,225,580	4,873
<b>Deferred Inflows of Resources</b> (Note 9)	10,956	16,933	27,889	-
<b>Net Position</b>				
Net investment in capital assets	910,459	2,809,038	3,719,497	469,405
Restricted:				
Capital improvement	407,837	113,676	521,513	-
Revenue bond reserve	-	385,856	385,856	-
Unrestricted	(532,517)	(1,400,084)	(1,932,601)	327,360
Total net position	<u>\$ 785,779</u>	<u>\$ 1,908,486</u>	2,694,265	<u>\$ 796,765</u>
<b>Net Position of Business-type Activities</b>			<u>\$ 2,694,265</u>	

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

# City of Davison, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
				Proprietary Internal Service Fund
	Sewer Fund	Water Fund	Total	
<b>Operating Revenue</b>				
Sale of water	\$ -	\$ 1,424,086	\$ 1,424,086	\$ -
Sewage disposal charges	1,192,087	-	1,192,087	-
Other sales to customers	-	6,850	6,850	-
Miscellaneous	3,600	63,244	66,844	-
Charges to other funds	-	-	-	266,258
Total operating revenue	1,195,687	1,494,180	2,689,867	266,258
<b>Operating Expenses</b>				
Cost of sewage treatment	634,440	-	634,440	-
Water plant operations	-	75,659	75,659	-
Wages and benefits	351,947	716,741	1,068,688	118,396
Supplies	12,324	30,639	42,963	18,220
Heat, light, and power	17,902	93,522	111,424	-
Equipment maintenance and repair	39,104	74,400	113,504	51,801
Building rent and maintenance	-	-	-	17,370
Insurance expense	7,082	10,139	17,221	12,575
Professional fees	10,400	14,199	24,599	-
Miscellaneous	8,256	30,016	38,272	-
Depreciation	41,905	264,519	306,424	126,326
Total operating expenses	1,123,360	1,309,834	2,433,194	344,688
<b>Operating Income (Loss)</b>	72,327	184,346	256,673	(78,430)
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	1,445	1,395	2,840	1,909
Interest expense	-	(77,712)	(77,712)	-
Total nonoperating revenue (expenses)	1,445	(76,317)	(74,872)	1,909
<b>Change in Net Position</b>	73,772	108,029	181,801	(76,521)
<b>Net Position - Beginning of year</b>	712,007	1,800,457	2,512,464	873,286
<b>Net Position - End of year</b>	<u>\$ 785,779</u>	<u>\$ 1,908,486</u>	<u>\$ 2,694,265</u>	<u>\$ 796,765</u>

# City of Davison, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
				Proprietary Internal Service Fund
	Sewer Fund	Water Fund	Total	
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,198,132	\$ 1,499,606	\$ 2,697,738	\$ -
Receipts from interfund services and reimbursements	2,460	4,127	6,587	266,258
Payments to suppliers	(673,988)	(279,146)	(953,134)	(98,756)
Payments to employees	(336,117)	(482,714)	(818,831)	(118,363)
Internal activity - Payments from other funds	457	517	974	-
Other receipts	-	-	-	(762)
Net cash provided by operating activities	190,944	742,390	933,334	48,377
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(270,231)	(11,116)	(281,347)	(220,890)
Principal and interest paid on capital debt	-	(480,212)	(480,212)	-
Net cash used in capital and related financing activities	(270,231)	(491,328)	(761,559)	(220,890)
<b>Cash Flows from Investing Activities -</b>				
Interest received on investments	1,445	1,395	2,840	1,909
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(77,842)	252,457	174,615	(170,604)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,249,547	954,700	2,204,247	495,058
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,171,705</u>	<u>\$ 1,207,157</u>	<u>\$ 2,378,862</u>	<u>\$ 324,454</u>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 1,171,705	\$ 821,301	\$ 1,993,006	\$ 324,454
Restricted cash	-	385,856	385,856	-
Total cash and cash equivalents	<u>\$ 1,171,705</u>	<u>\$ 1,207,157</u>	<u>\$ 2,378,862</u>	<u>\$ 324,454</u>

# City of Davison, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 72,327	\$ 184,346	\$ 256,673	\$ (78,430)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	41,905	264,519	306,424	126,326
Changes in assets and liabilities:				
Receivables	2,445	5,426	7,871	(762)
Due from others	2,460	4,127	6,587	-
Prepaid and other assets	516	(1,954)	(1,438)	(566)
Accounts payable	(3,744)	51,382	47,638	1,776
Due to others	457	517	974	-
Accrued and other liabilities	74,578	234,027	308,605	33
Net cash provided by operating activities	<u>\$ 190,944</u>	<u>\$ 742,390</u>	<u>\$ 933,334</u>	<u>\$ 48,377</u>

# City of Davison, Michigan

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Nonunion Pension Benefit Trust Fund	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 43,305	\$ 1,393
Investments - Mutual funds	1,057,936	-
Total assets	1,101,241	<u>\$ 1,393</u>
<b>Liabilities - Accounts payable</b>	<u>745</u>	<u>\$ 1,393</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<u>\$ 1,100,496</u>	

# City of Davison, Michigan

## **Fiduciary Funds** **Statement of Changes in Fiduciary Net Position - Nonunion Pension** **Benefit Trust Fund** **Year Ended June 30, 2017**

### **Additions**

Investment income (expense):	
Interest and dividends	\$ 32,460
Net increase in fair value of investments	54,276
Investment-related expenses	<u>(8,944)</u>
Net investment income	77,792
Contributions - Employer	<u>71,850</u>
Total additions	149,642

### **Deductions**

Benefit payments	62,321
Administrative expenses	<u>25,044</u>
Total deductions	<u>87,365</u>

### **Net Increase in Net Position Held in Trust**

62,277

### **Net Position Held in Trust for Pension and Other Employee Benefits -**

Beginning of year	<u>1,038,219</u>
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### **Net Position Held in Trust for Pension and Other Employee Benefits -**

End of year	<u><u>\$ 1,100,496</u></u>
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# City of Davison, Michigan

## Component Units Statement of Net Position June 30, 2017

	Downtown Development Authority	Local Development Finance Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 41,656	\$ 125,458	\$ 167,114
Prepaid expenses and other assets	375	600	975
Land held for resale (Note 1)	-	293,675	293,675
Total assets	42,031	419,733	461,764
<b>Liabilities</b>			
Accounts payable	4,686	-	4,686
Accrued liabilities and other - Noncurrent liabilities - Due in more than one year - Long-term debt (Note 8)	-	212,961	212,961
Total liabilities	4,686	212,961	217,647
<b>Net Position - Unrestricted</b>	<b>\$ 37,345</b>	<b>\$ 206,772</b>	<b>\$ 244,117</b>

# City of Davison, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority:				
Economic development	\$ 94,303	\$ -	\$ -	\$ -
Community and economic development	42,905	-	-	-
Local Development Finance Authority -				
Economic development	4,760	-	-	-
Total component units	<b>\$ 99,063</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
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>				

**Component Units  
Statement of Activities  
Year Ended June 30, 2017**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
\$ (94,303)	\$ -	\$ (94,303)
<u>(42,905)</u>	<u>-</u>	<u>(42,905)</u>
-	<u>(4,760)</u>	<u>(4,760)</u>
(94,303)	(4,760)	(99,063)
57,169	8,660	65,829
-	14,167	14,167
10	-	10
<u>35,080</u>	<u>-</u>	<u>35,080</u>
<u>92,259</u>	<u>22,827</u>	<u>115,086</u>
(2,044)	18,067	16,023
<u>39,389</u>	<u>188,705</u>	<u>228,094</u>
<b><u>\$ 37,345</u></b>	<b><u>\$ 206,772</u></b>	<b><u>\$ 244,117</u></b>

### **Note I - Nature of Business and Significant Accounting Policies**

The accounting policies of the City of Davison, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Davison, Michigan:

#### **Reporting Entity**

City of Davison, Michigan 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, to encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not publish separate financial statements.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**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. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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

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

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

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

#### **Fund Accounting**

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

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. This includes 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 City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The 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** 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 funds are 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.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

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

- The Nonunion Pension Benefit Trust Fund, which 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.

**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 government has spent its resources.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

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 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.

**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.



### Note I - Nature of Business and Significant Accounting Policies (Continued)

**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, 2017 are \$385,856.

**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 (amount not rounded) 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 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	Lives
Buildings	39 years
Improvements other than buildings	10-40 years
Machinery and equipment	5-7 years
Infrastructure	39-40 years
Sewer and water systems	40 years
Vehicles	3-5 years
Office furnishings	5-7 years
Other tools and equipment	3-7 years

### **Note I - Nature of Business and 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 as an "other financing source," as well as bond premiums and discounts. The General Fund and Inflow and Infiltration 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 a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has an item that qualifies for reporting in this category, which is the deferred outflows of resources related to the defined benefit pension plans. The deferred outflows 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 outflows of resources related to pension can be found in Notes 9 and 10.

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 a future period and so 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 Notes 9 and 10. 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. The City also reports a deferred inflow related to grant revenue that is received outside of the period of availability. The governmental funds report deferred inflows related to this item. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

#### **Net Position Flow Assumption**

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

#### **Fund Balance Flow Assumption**

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

#### **Fund Balance Policies**

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

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

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

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

**Assigned:** Intent to spend resources on specific purposes expressed by the City Council

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 on August 31, at which time penalties and interest are assessed.

The City's 2016 tax is levied and collectible on July 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the City totaled \$103.1 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 12.7721 mills for operating and 1.3487 mills for repayment of debt. This resulted in \$1.233 million for operating and \$131 thousand for debt retirement.

In 1981, the City's Downtown Development Authority (DDA) entered into tax incremental financing agreements with the City, Genesee County, 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, 2017 by district are as follows:

District 1	\$ 1,744,270
District 2	273,502

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.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

In 1997, a Local Development Finance Authority (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 Davison LDFA entered into tax incremental financing agreements with the City of Davison, Michigan and Genesee County. 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, 2017 is \$453,104.

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 (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 which require, or which may require, undertaking certain eligible response activities to facilitate redevelopment under this Plan:

- I. 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.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

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.

The duration of the Brownfield Plan shall be 30 years. As of June 30, 2017, 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.

**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.

**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 purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Other Postemployment Benefit Costs** - The City offers retiree healthcare benefits to retirees. The City computes the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General Fund and the Water and Sewer Funds 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 fiduciary 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 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 Fund and internal service funds is charges to customers for sales and services. The Water and Sewer Fund also recognizes 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 internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### 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, 2016	\$ (633,206)
Current year permit revenue	13,465
Related expenses - Direct costs	<u>35,726</u>
Current year shortfall	<u>(22,261)</u>
Cumulative shortfall at June 30, 2017	<u>\$ (655,467)</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 \$3,800,505 of bank deposits (certificates of deposit and checking and savings accounts) 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.



# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### Note 3 - Deposits and Investments (Continued)

**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	\$ 153,242	\$ -	\$ 45,270	\$ 107,972	\$ -

**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 year end, 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	\$ 15,336	BBB+	S&P
Fixed income	15,400	BBB	S&P
Fixed income	122,506	BBB-	S&P

### Note 4 - Fair Value Measurement

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 the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above 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 or liability.

# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### Note 4 - Fair Value Measurement (Continued)

The City has the following recurring fair value measurements as of June 30, 2017:

#### Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Fixed income	\$ 153,242	\$ 153,242	\$ -	\$ -
Equity	291,419	291,419	-	-
Mutual funds	578,535	578,535	-	-
Real estate	34,740	34,740	-	-
Total investments by fair value level	<u>\$ 1,057,936</u>	<u>\$ 1,057,936</u>	<u>\$ -</u>	<u>\$ -</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.

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,470,882	\$ -	\$ -	\$ -	\$ 1,470,882
Construction in progress	13,623	(13,623)	9,233	-	9,233
Subtotal	1,484,505	(13,623)	9,233	-	1,480,115
Capital assets being depreciated:					
Infrastructure	4,757,970	-	-	-	4,757,970
Buildings and improvements	1,277,029	13,623	204,589	-	1,495,241
Machinery and equipment	1,926,892	-	220,990	(69,494)	2,078,388
Improvements other than buildings	723,608	-	9,642	-	733,250
Subtotal	8,685,499	13,623	435,221	(69,494)	9,064,849
Accumulated depreciation:					
Infrastructure	1,300,445	-	214,645	-	1,515,090
Buildings and improvements	899,788	-	23,190	-	922,978
Machinery and equipment	1,542,677	-	129,574	(69,394)	1,602,857
Improvements other than buildings	601,722	-	10,477	-	612,199
Subtotal	4,344,632	-	377,886	(69,394)	4,653,124
Net capital assets being depreciated	4,340,867	13,623	57,335	(100)	4,411,725
Net capital assets	<u>\$ 5,825,372</u>	<u>\$ -</u>	<u>\$ 66,568</u>	<u>\$ (100)</u>	<u>\$ 5,891,840</u>

# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### Note 5 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000
Construction in progress	29,916	(29,916)	-	-	-
Subtotal	30,916	(29,916)	-	-	1,000
Capital assets being depreciated:					
Water and sewer lines	12,718,861	29,916	266,474	-	13,015,251
Buildings and improvements	139,395	-	-	-	139,395
Machinery and equipment	185,804	-	14,873	-	200,677
Subtotal	13,044,060	29,916	281,347	-	13,355,323
Accumulated depreciation:					
Water and sewer lines	6,112,722	-	299,114	-	6,411,836
Buildings and improvements	70,814	-	3,429	-	74,243
Machinery and equipment	176,885	-	3,881	-	180,766
Subtotal	6,360,421	-	306,424	-	6,666,845
Net capital assets being depreciated	6,683,639	29,916	(25,077)	-	6,688,478
Net capital assets	\$ 6,714,555	\$ -	\$ (25,077)	\$ -	\$ 6,689,478

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

#### Governmental activities:

General government	\$ 142,735
Public safety	3,248
Public works	204,329
Recreation and culture	27,574
Total governmental activities	<u>\$ 377,886</u>

#### Business-type activities:

Sewer	\$ 41,905
Water	264,519
Total business-type activities	<u>\$ 306,424</u>

Assets for the component unit totaled \$24,742 for the year ended June 30, 2017. All assets were fully depreciated.

# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

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

The composition of interfund balances as of June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Sewer Fund	\$ 457
	Water Fund	914
	Total General Fund	<u>\$ 1,371</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.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Major Streets Fund	Local Streets Fund	<u>\$ 50,900</u>

Transfers between funds were primarily for operating purposes. The transfer from the Major Streets Fund to the Local Streets Fund is allowable per Act 51.

### 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 five years each. As of June 30, 2017, the lease is in the second 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 Year Ending	Amount
2018	\$ 31,300
2019	31,300
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.

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

	Interest Rate Ranges	Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
2007 General Obligation Capital Improvement Bonds	1.625%	10/1/2028	\$ 1,141,563	\$ -	\$ (80,000)	\$ 1,061,563	\$ 80,000
Accumulated compensated absences			77,871	90,507	(88,736)	79,642	79,642
Total governmental activities			\$ 1,219,434	\$ 90,507	\$ (168,736)	\$ 1,141,205	\$ 159,642

	Interest Rate Ranges	Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
2003 Water Capital Improvement Bonds	1.2%-4.45%	10/1/2018	\$ 150,000	\$ -	\$ (50,000)	\$ 100,000	\$ 50,000
Drinking Water Revolving Loan Fund Debt	2.5%	10/1/2024	2,924,981	-	(310,000)	2,614,981	315,000
2013 Water Capital Improvement Bonds	2.0%	10/01/2023	295,000	-	(40,000)	255,000	40,000
Total bonds payable			3,369,981	-	(400,000)	2,969,981	405,000
Accumulated compensated absences			12,462	12,325	(14,134)	10,653	10,653
Total business-type activities			\$ 3,382,443	\$ 12,325	\$ (414,134)	\$ 2,980,634	\$ 415,653

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Component Unit Activities</b>							
Land installment purchase - Rising Street	4.88%	10/1/2019	\$ 128,394	\$ -	\$ (8,113)	\$ 120,281	\$ -
Land installment purchase - South State Street	4.65%	10/1/2020	98,187	-	(5,507)	92,680	-
Total loans payable			\$ 226,581	\$ -	\$ (13,620)	\$ 212,961	\$ -

Years Ending June 30	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 80,000	\$ 16,600	\$ 96,600	\$ 405,000	\$ 69,450	\$ 474,450	\$ -	\$ -	\$ -
2019	85,000	15,260	100,260	415,000	58,450	473,450	-	-	-
2020	85,000	13,879	98,879	370,000	48,350	418,350	120,281	-	120,281
2021	85,000	12,497	97,497	380,000	39,187	419,187	92,680	-	92,680
2022	85,000	11,116	96,116	390,000	29,787	419,787	-	-	-
2023-2027	455,000	33,805	488,805	1,009,981	33,137	1,043,118	-	-	-
2028-2029	186,563	3,004	189,567	-	-	-	-	-	-
Total	\$ 1,061,563	\$ 106,161	\$ 1,167,724	\$ 2,969,981	\$ 278,361	\$ 3,248,342	\$ 212,961	\$ -	\$ 212,961

Interest is payable on all obligations semiannually or annually. Principal is paid on an annual basis for all debt including the LDFA loan for which principal is due at the end of the loan.

### **Note 9 - Defined Benefit Pension Plan - Union and Supervisors**

**Plan Description** - 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.mersofmichigan.com](http://www.mersofmichigan.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Benefits Provided** - 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.

#### **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, 2016, 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.

Per union contract, all participants must contribute 8 percent of their base rate of pay 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 with 25 years of service.

#### **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, 2016, the most recent valuation, there were four active plan members, three retirees and beneficiaries receiving benefits, and two terminated plan members not yet receiving benefits.

### **Note 9 - Defined Benefit Pension Plan - Union and Supervisors (Continued)**

Participants must contribute 3.5 percent of their base rate of pay 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, 2016, 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 base rate of pay 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.

#### **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, 2016, the most recent valuation, there were seven active plan members, six retirees and beneficiaries receiving benefits, and no terminated plan members not yet receiving benefits. There are two divisions under the Public Works Pension Plan, one closed as of July 1, 2012 and one that includes new employees hired subsequent to July 1, 2012.

Per union contract, participants must contribute 2 percent of their base rate of pay to MERS for employees included in the closed division or 5 percent of their base rate of pay 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 or with 25 years of service for employees in the closed division, or at age 55 or with 25 years of service for employees hired after July 1, 2012.

### Note 9 - Defined Benefit Pension Plan - Union and Supervisors (Continued)

**Employees Covered by Benefit Terms** - At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	17
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>18</u>
Total employees covered by MERS	<u>38</u>

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, 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 2.45 percent to 40.11 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.

#### **Net Pension Liability**

The net pension liability reported at June 30, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of December 31, 2016.



# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### Note 9 - Defined Benefit Pension Plan - Union and Supervisors (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2016</b>	\$ 11,868,237	\$ 5,629,334	\$ 6,238,903
Service cost	158,862	-	158,862
Interest	929,421	-	929,421
Differences between expected and actual experience	(132,806)	-	(132,806)
Contributions - Employer	-	431,409	(431,409)
Contributions - Employee	-	45,748	(45,748)
Net investment income	-	630,729	(630,729)
Benefit payments, including refunds	(659,807)	(659,807)	-
Administrative expenses	-	(12,461)	12,461
Net changes	295,670	435,618	(139,948)
<b>Balance at June 30, 2017</b>	<b>\$ 12,163,907</b>	<b>\$ 6,064,952</b>	<b>\$ 6,098,955</b>

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

For the year ended June 30, 2017, the City recognized pension expense of \$832,607. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 52,542	\$ (99,605)
Changes in assumptions	260,595	-
Net difference between projected and actual earnings on pension plan investments	231,618	-
Employer contributions to the plan subsequent to the measurement date	219,977	-
Total	<b>\$ 764,732</b>	<b>\$ (99,605)</b>

### Note 9 - Defined Benefit Pension Plan - Union and Supervisors (Continued)

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 \$219,977 employer contributions to the plan made subsequent to the measurement date which will impact the net pension liability in fiscal year 2018, rather than pension expense.

Years Ending June 30	Amount
2018	\$ 220,154
2019	220,154
2020	42,480
2021	(37,638)

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

Inflation	2.50%
Salary increases	3.75% In the long term, including inflation
Investment rate of return	7.75% Net of pension plan investment expense, including inflation

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.

**Discount Rate** - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

### Note 9 - Defined Benefit Pension Plan - Union and Supervisors (Continued)

#### 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.

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, 2016, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58 %	5.00 %
Global fixed income	20	2.20
Real assets	12	4.20
Diversifying strategies	10	6.60

The preceding target allocation was amended as of January 1, 2017 to reduce the previous allocation to global equity and global fixed income and to increase the allocation of real assets and diversifying strategies. The target allocation as of January 1, 2017 will be 55.5 percent global equity, 18.5 percent global fixed income, 13.5 percent real assets, and 12.5 percent diversifying strategies.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 8.00 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:

	<u>1 Percent Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1 Percent Increase (9.00%)</u>
Net pension liability of the City	\$ 7,672,861	\$ 6,098,955	\$ 4,797,053

### Note 9 - Defined Benefit Pension Plan - Union and Supervisors (Continued)

**Pension 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 pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the plan's fiduciary net position and addition to/deduction 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 - Defined Benefit Pension Plan - Nonunion

**Plan Description** - 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.

**Employees Covered by Benefit Terms** - At June 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	5
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>2</u>
Total employees covered by the plan	<u>9</u>

**Benefits Provided** - The nonunion pension plan provides retirement, disability, and death benefits. Benefit terms are established and amended by the City Council.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the 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, 2017, the annual required contribution was \$64,484.

### Note 10 - Defined Benefit Pension Plan - Nonunion (Continued)

#### Pension Plan Investments - Policy and Rate of Return

**Investment Policy** - 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, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	48 %
Fixed income	44
Cash	8

**Rate of Return** - For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.8 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### Net Pension Liability

Total pension liability	\$ 1,248,286
Plan fiduciary net position	<u>(1,100,496)</u>
City's net pension liability	<u>\$ 147,790</u>
Plan fiduciary net position as a percentage of the total pension liability	88.2 %

The City has chosen to use June 30, 2017 as its measurement date for the net pension liability. The June 30, 2017 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### Note 10 - Defined Benefit Pension Plan - Nonunion (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2016</b>	\$ 1,368,755	\$ 1,038,219	\$ 330,536
Service cost	2,944	-	2,944
Interest	71,026	-	71,026
Differences between expected and actual experience	3,702	-	3,702
Changes in assumptions	(135,820)	-	(135,820)
Contributions - Employer	-	71,850	(71,850)
Net investment income	-	86,736	(86,736)
Benefit payments, including refunds	(62,321)	(62,321)	-
Administrative expenses	-	(33,988)	33,988
Net changes	(120,469)	62,277	(182,746)
<b>Balance at June 30, 2017</b>	<b>\$ 1,248,286</b>	<b>\$ 1,100,496</b>	<b>\$ 147,790</b>

**Assumption Changes** - For the June 30, 2017 actuarial valuation, there was an assumption change that resulted in an increase in the calculated total pension liability. The assumptions changed during the year related to the discount rate and mortality table used. See below for the assumptions used.

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

For the year ended June 30, 2017, the City recognized pension expense of \$35,528. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 50,669	\$ -
Changes in assumptions	74,987	(98,092)
Net difference between projected and actual earnings on pension plan investments	23,162	-
Total	<b>\$ 148,818</b>	<b>\$ (98,092)</b>

### Note 10 - Defined Benefit Pension Plan - Nonunion (Continued)

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

Years Ending June 30	Amount
2018	\$ (10,872)
2019	(10,872)
2020	(6,886)
2021	7,828
2022	12,864
2023-2026	58,664

**Actuarial Assumptions** - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.00% Gross of pension plan investment expense, including inflation
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Mortality rates were based on the 2017 IRS PPA Mortality Table.

**Discount Rate** - The discount rate used to measure the total pension liability was 6.00 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.

#### 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.

### Note 10 - Defined Benefit Pension Plan - Nonunion (Continued)

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, 2017 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.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	6.00 %
Fixed income	3.50 %

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 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:

	<u>1 Percent Decrease (5.00%)</u>	<u>Current Discount Rate (6.00%)</u>	<u>1 Percent Increase (7.00%)</u>
Net pension liability of the City	\$ 287,127	\$ 147,790	\$ 30,030

**Pension Plan Fiduciary Net Position** - 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 or resources related to pension, and pension expense, information about the plan's fiduciary net position and addition to/deduction 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 - Other Postemployment Benefits

**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.

This is an agent multiple-employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan (MERS).

**Funding Policy** - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the City has made contributions to advance-fund these benefits, as determined by the City Council through annual budget resolutions.

**Funding Progress** - The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed 23 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual required contribution (recommended)	\$ 1,551,921
Interest on the prior year's net OPEB obligation	243,700
Less adjustment to the annual required contribution	<u>(343,609)</u>
Annual OPEB cost	1,452,012
Amounts contributed:	
Payments of current premiums	(268,789)
Additional contributions	<u>(55,860)</u>
Increase in net OPEB obligation	1,127,363
OPEB obligation - Beginning of year	<u>6,092,511</u>
OPEB obligation - End of year	<u>\$ 7,219,874</u>

# City of Davison, Michigan

## Notes to Financial Statements June 30, 2017

### Note 11 - Other Postemployment Benefits (Continued)

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date/ Alternative Measurement Method Date	Annual Required Contribution	Annual OPEB Costs	Employer Contributions		Net OPEB Obligation
				Percentage of ARC Contributed	Percentage OPEB Costs Contributed	
6/30/15	6/30/15	\$ 1,629,984	\$ 1,535,154	18.7 %	19.9 %	\$ 4,936,283
6/30/16	6/30/16	1,551,921	1,480,668	21.0	21.9	6,092,511
6/30/17	6/30/16	1,551,921	1,452,012	21.0	22.4	7,219,874

The funding progress of the plan is as follows:

Actuarial Valuation Date/ Alternative Measurement Method Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
6/30/15	\$ 370,272	\$ 13,558,648	\$ 13,188,376	2.7 %
6/30/16*	425,475	19,654,305	19,228,830	2.2
6/30/16*	425,475	19,654,305	19,228,830	2.2

\* The increase in the AAL from 2015 to 2016 is due to several changes in the assumptions used to calculate the liability. The changes in assumptions that had the most impact on the estimate relate to updated mortality tables and the increase in the salary inflation rate due to changes in union contracts.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

### Note 11 - Other Postemployment Benefits (Continued)

The following simplifying assumptions were made:

**Retirement Age for Active Employees** - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 54 or at the first subsequent year in which the member would qualify for benefits.

**Mortality** - Marital status of members at the calculation date was assumed to continue throughout retirement. Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2009 United States Life Tables for males and for females were used.

**Turnover** - Nongroup-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose of allocating to periods the present value of total benefits to be paid.

**Health Insurance Premiums** - 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

**Inflation Rate** - The expected long-term inflation assumption of 3.3 percent was based on projected changes in the Consumer Price Index for urban wage earners and clerical workers (CPI-W) in The 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

**Payroll Growth Rate** - The expected long-term payroll growth rate was assumed to equal the rate of wage increases based on current negotiated union contracts.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2017 was 23 years.

### **Note 12 - Defined Contribution Pension Plan**

Effective for all union office employees and the city manager 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. The previous city manager participated from the date of employment. Union office employees are eligible to participate after working 1,000 hours. As established by employee contracts, the City contributes 6 percent (office employees) or 10 percent (city manager) of employees' gross earnings, based on the employee's contract.

The City's total payroll during the current year for the union office employees and the city manager in the plan was \$199,650. The current year contribution was calculated based on covered payroll of \$199,650, resulting in an employer contribution of \$14,835.

### **Note 13 - Deferred Compensation Plan**

The City offers its employees a deferred compensation plan, the City of Davison Defined Contribution Plan administered by Nationwide, created in accordance with IRC Section 457. The plan, 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 14 - 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 15 - Joint Ventures

1. In April 1979, the City of Davison, Michigan entered into a joint venture with Davison Township to create a 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, 2017, 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.

2. 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 \$834,310 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2017, the City was billed \$128,418 by the Fire Authority. At year end, the City owed \$28,429 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.

### Note 15 - Joint Ventures (Continued)

3. 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, 2017, the City's contribution to Davison Community Enrichment and Recreation was \$45,000.

### Note 16 - 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, 2017, the City abated \$1,097 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

### Note 17 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). 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, 2018.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. 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 2019 - 2020 fiscal year.

## **Required Supplemental Information**

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# City of Davison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,309,000	\$ 1,328,000	\$ 1,332,557	\$ 4,557
Licenses and permits	9,700	17,200	15,345	(1,855)
Federal grants	-	231,600	173,011	(58,589)
State-shared revenue and grants	628,050	588,050	597,794	9,744
Charges for services	32,750	19,750	18,255	(1,495)
Fines and forfeitures	21,000	15,500	11,486	(4,014)
Investment income	4,500	4,500	4,054	(446)
Rental income	76,800	76,800	75,619	(1,181)
Other revenue	201,100	228,235	220,691	(7,544)
Total revenue	2,282,900	2,509,635	2,448,812	(60,823)
<b>Expenditures - Current</b>				
General government:				
Executive expenses	19,000	17,000	15,636	1,364
CEO (manager, supervisor, mayor)	128,775	130,000	124,970	5,030
Planning commission	500	-	-	-
Treasurer	82,775	94,000	91,337	2,663
Assessing	31,100	48,000	46,505	1,495
Board of Appeals	2,300	250	-	250
Clerk	524,025	596,750	581,640	15,110
Elections	10,100	6,000	5,296	704
Hall and grounds	79,400	245,000	236,651	8,349
Less reimbursement from:	(8,700)	(8,700)	(8,700)	-
Major streets	(26,000)	(26,000)	(26,000)	-
Water	(214,750)	(214,750)	(214,750)	-
Sewer	(214,750)	(214,750)	(214,750)	-
Equipment	(47,500)	(47,500)	(47,500)	-
Total general government	366,275	625,300	590,335	34,965
Public safety:				
Police protection	1,066,250	1,093,500	1,068,657	24,843
Fire protection	132,000	132,000	126,641	5,359
Building and code enforcement	37,350	37,350	35,726	1,624
Total public safety	1,235,600	1,262,850	1,231,024	31,826
Public works - Public improvements	418,400	450,500	433,611	16,889
Community and economic development	26,500	290,250	258,184	32,066
Recreation and culture:				
Library	39,275	97,575	94,205	3,370
Parks and recreation	144,750	175,000	169,616	5,384
Senior citizens	4,100	4,100	4,058	42
Community development	3,000	-	-	-
Total recreation and culture	191,125	276,675	267,879	8,796
Total expenditures	2,237,900	2,905,575	2,781,033	124,542
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	45,000	(395,940)	(332,221)	63,719
<b>Other Financing Uses - Transfers out</b>	(45,000)	-	-	-



# City of Davison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with <u>Amended Budget</u>
<b>Net Change in Fund Balance</b>	\$ -	\$ (395,940)	\$ (332,221)	\$ 63,719
<b>Fund Balance - Beginning of year</b>	<u>1,469,457</u>	<u>1,469,457</u>	<u>1,469,457</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 1,469,457</u>	<u>\$ 1,073,517</u>	<u>\$ 1,137,236</u>	<u>\$ 63,719</u>

# City of Davison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 323,200	\$ 378,200	\$ 371,370	\$ (6,830)
Investment income	75	75	158	83
Total revenue	323,275	378,275	371,528	(6,747)
<b>Expenditures - Current -</b>				
Highway and streets	242,750	242,750	154,393	88,357
<b>Excess of Revenue Over Expenditures</b>	80,525	135,525	217,135	81,610
<b>Other Financing Uses - Transfers out</b>	(80,525)	(50,900)	(50,900)	-
<b>Net Change in Fund Balance</b>	-	84,625	166,235	81,610
<b>Fund Balance - Beginning of year</b>	237,850	237,850	237,850	-
<b>Fund Balance - End of year</b>	<u>\$ 237,850</u>	<u>\$ 322,475</u>	<u>\$ 404,085</u>	<u>\$ 81,610</u>

# City of Davison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 176,500	\$ 117,500	\$ 112,301	\$ (5,199)
Investment income	100	100	158	58
Total revenue	176,600	117,600	112,459	(5,141)
<b>Expenditures - Current -</b>				
Highway and streets	302,500	171,500	99,500	72,000
<b>Excess of Revenue (Under) Over Expenditures</b>	(125,900)	(53,900)	12,959	66,859
<b>Other Financing Sources -</b>				
Transfers in	80,525	50,900	50,900	-
<b>Net Change in Fund Balance</b>	(45,375)	(3,000)	63,859	66,859
<b>Fund Balance - Beginning of year</b>	330,574	330,574	330,574	-
<b>Fund Balance - End of year</b>	<u>\$ 285,199</u>	<u>\$ 327,574</u>	<u>\$ 394,433</u>	<u>\$ 66,859</u>

# City of Davison, Michigan

## Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios - Nonunion Pension Plan Years Ended June 30

	2017	2016	2015
<b>Total Pension Liability</b>			
Service cost	\$ 2,944	\$ -	\$ -
Interest	71,026	69,337	70,505
Changes in benefit terms	-	-	-
Differences between expected and actual experience	3,702	45,561	13,451
Changes in assumptions	(135,820)	-	98,668
Benefit payments, including refunds	<u>(62,321)</u>	<u>(51,921)</u>	<u>(51,921)</u>
<b>Net Change in Total Pension Liability</b>	(120,469)	62,977	130,703
<b>Total Pension Liability - Beginning of year</b>	<u>1,368,755</u>	<u>1,305,778</u>	<u>1,175,075</u>
<b>Total Pension Liability - End of year</b>	<b><u>\$ 1,248,286</u></b>	<b><u>\$ 1,368,755</u></b>	<b><u>\$ 1,305,778</u></b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 71,850	\$ 40,550	\$ 22,550
Contributions - Member	-	-	-
Net investment income	86,736	19,765	11,337
Administrative expenses	(33,988)	(39,093)	(15,846)
Benefit payments, including refunds	(62,321)	(51,921)	(51,921)
Other	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Plan Fiduciary Net Position</b>	62,277	(30,699)	(33,880)
<b>Plan Fiduciary Net Position - Beginning of year</b>	<u>1,038,219</u>	<u>1,068,918</u>	<u>1,102,798</u>
<b>Plan Fiduciary Net Position - End of year</b>	<b><u>\$ 1,100,496</u></b>	<b><u>\$ 1,038,219</u></b>	<b><u>\$ 1,068,918</u></b>
<b>City's Net Pension Liability - Ending</b>	<b><u>\$ 147,790</u></b>	<b><u>\$ 330,536</u></b>	<b><u>\$ 236,860</u></b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	88.16 %	75.85 %	81.86 %
<b>Covered Employee Payroll</b>	\$ -	\$ -	\$ -
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	- %	- %	- %

# City of Davison, Michigan

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## Required Supplemental Information Schedule of Investment Returns - Nonunion Pension Plan Last Six Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual money-weighted rate of return, net of investment expense	1.8 %	1.9 %	1.3 %	3.2 %	13.0 %	11.8 %

# City of Davison, Michigan

## Required Supplemental Information Schedule of City Contributions - Nonunion Pension Plan Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 64,484	\$ 40,506	\$ 22,539	\$ 36,587	\$ 28,960	\$ 16,490	\$ 23,332	\$ 113,929	\$ 240,979	\$ 126,244
Contributions in relation to the actuarially determined contribution	<u>71,849</u>	<u>40,550</u>	<u>22,550</u>	<u>36,590</u>	<u>28,960</u>	<u>36,500</u>	<u>257,652</u>	<u>114,000</u>	<u>240,000</u>	<u>265,112</u>
<b>Contribution (Excess) Deficiency</b>	<b><u>\$ (7,365)</u></b>	<b><u>\$ (44)</u></b>	<b><u>\$ (11)</u></b>	<b><u>\$ (3)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (20,010)</u></b>	<b><u>\$ (234,320)</u></b>	<b><u>\$ (71)</u></b>	<b><u>\$ 979</u></b>	<b><u>\$ (138,868)</u></b>
<b>Covered Employee Payroll</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 179,883</b>	<b>\$ 172,365</b>	<b>\$ 268,480</b>	<b>\$ 284,085</b>	<b>\$ 341,861</b>	<b>\$ 329,138</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>16.1 %</b>	<b>21.2 %</b>	<b>96.0 %</b>	<b>40.1 %</b>	<b>70.2 %</b>	<b>80.5 %</b>

### Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of July 1, 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 3.6 years

Remaining amortization period 3.6 years

Asset valuation method Market value

Inflation 2.25 percent

Salary increases 0 percent

Investment rate of return 6.00 percent

Retirement age Age 60

Mortality 2017 PPA IRS PPA Mortality Table

Other information The amortization period changed to 3.6 years. The Mortality Rate assumptions have been updated to 2017 PPA funding table.

# City of Davison, Michigan

## Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios - Union Pension Plan Years Ended June 30

	2017	2016	2015
<b>Total Pension Liability</b>			
Service cost	\$ 158,862	\$ 156,616	\$ 156,189
Interest	929,421	875,272	842,204
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(132,806)	105,084	-
Changes in assumptions	-	521,190	-
Benefit payments, including refunds	(659,807)	(641,953)	(553,619)
<b>Net Change in Total Pension Liability</b>	295,670	1,016,209	444,774
<b>Total Pension Liability - Beginning of year</b>	11,868,237	10,852,028	10,407,254
<b>Total Pension Liability - End of year</b>	<b>\$ 12,163,907</b>	<b>\$ 11,868,237</b>	<b>\$ 10,852,028</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 431,409	\$ 390,166	\$ 339,648
Contributions - Member	45,748	44,013	48,741
Net investment income	630,729	(85,985)	361,710
Administrative expenses	(12,461)	(12,814)	(13,261)
Benefit payments, including refunds	(659,807)	(641,953)	(553,619)
Other	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	435,618	(306,573)	183,219
<b>Plan Fiduciary Net Position - Beginning of year</b>	5,629,334	5,935,907	5,752,688
<b>Plan Fiduciary Net Position - End of year</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>\$ 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>	49.86 %	47.43 %	54.70 %
<b>Covered Employee Payroll</b>	\$ 956,848	\$ 910,098	\$ 946,636
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	637.4 %	685.5 %	519.3 %

# City of Davison, Michigan

## Required Supplemental Information Schedule of City Contributions - Union Pension Plan Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 472,201	\$ 383,148	\$ 333,830	\$ 332,909	\$ 315,477	\$ 328,908	\$ 322,384	\$ 306,192	\$ 279,441	\$ 271,638
Contributions in relation to the actuarially determined contribution	472,201	390,166	339,647	332,909	315,477	328,908	322,384	306,192	279,441	271,638
<b>Contribution (Excess) Deficiency</b>	<b>\$ -</b>	<b>\$ (7,018)</b>	<b>\$ (5,817)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 956,848</b>	<b>\$ 910,098</b>	<b>\$ 946,636</b>	<b>\$ 950,126</b>	<b>\$ 888,798</b>	<b>\$ 938,771</b>	<b>\$ 867,074</b>	<b>\$ 1,297,410</b>	<b>\$ 1,151,026</b>	<b>\$ 1,091,969</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>49.3 %</b>	<b>42.9 %</b>	<b>35.9 %</b>	<b>35.0 %</b>	<b>35.5 %</b>	<b>35.0 %</b>	<b>37.2 %</b>	<b>23.6 %</b>	<b>24.3 %</b>	<b>24.9 %</b>

### Notes to Schedule of City 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. Contributions for the City's fiscal year ended June 30, 2017 were determined based on the actuarial valuation as of December 31, 2014. The most recent valuation is as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	24 years
Asset valuation method	10-year smoothed market
Inflation	2.5 percent
Salary increases	3.75 percent
Investment rate of return	7.75 percent
Retirement age	Experience-based table of rates are specific to the type of eligibility condition.
Mortality	Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables: <ol style="list-style-type: none"> <li>1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent</li> <li>2. The RP-2014 Employee Mortality Tables</li> <li>3. The RP-2014 Juvenile Mortality Tables</li> </ol> <p>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.</p>
Other information	None



# City of Davison, Michigan

## Required Supplemental Information OPEB System Schedule Year Ended June 30, 2017

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual OPEB Costs	Percentage of OPEB Costs Contributed
6/30/16	\$ 425,475	\$ 19,654,305	\$ 19,228,830	2.2 %	\$ 1,452,012	22.4 %
6/30/16	425,475	19,654,305	19,228,830	2.2	1,480,668	21.9
6/30/15	370,272	13,558,648	13,188,376	2.7	1,535,154	19.9

# City of Davison, Michigan

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## **Note to Required Supplemental Information Year Ended June 30, 2017**

**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**

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# **City of Davison, Michigan**

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## **Other Supplemental Information Nonmajor Governmental Funds Fund Descriptions**

### **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.

# City of Davison, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue Fund	Debt Service Funds	Total Nonmajor Governmental Funds
	Refuse Collection Fund	Inflow and Infiltration Debt Fund	
<b>Assets - Cash and investments</b>	<b>\$ 19,074</b>	<b>\$ 557,335</b>	<b>\$ 576,409</b>
<b>Liabilities - Accounts payable</b>	\$ -	\$ 928	\$ 928
<b>Fund Balances - Restricted</b>			
Debt service	-	556,407	556,407
Rubbish collections	19,074	-	19,074
Total fund balances	19,074	556,407	575,481
Total liabilities and fund balances	<b>\$ 19,074</b>	<b>\$ 557,335</b>	<b>\$ 576,409</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, 2017

	Special Revenue Fund Refuse Collection Fund	Debt Service Fund Inflow and Infiltration Debt Fund	Total Nonmajor Governmental Funds
<b>Revenue</b>			
Property taxes	\$ -	\$ 134,737	\$ 134,737
Charges for services	266,400	-	266,400
Investment income	32	541	573
Total revenue	<u>266,432</u>	<u>135,278</u>	<u>401,710</u>
<b>Expenditures</b>			
Current - Public works	267,993	-	267,993
Debt service:			
Principal	-	80,000	80,000
Interest on long-term debt	-	17,900	17,900
Total expenditures	<u>267,993</u>	<u>97,900</u>	<u>365,893</u>
<b>Net Change in Fund Balances</b>	(1,561)	37,378	35,817
<b>Fund Balances - Beginning of year</b>	<u>20,635</u>	<u>519,029</u>	<u>539,664</u>
<b>Fund Balances - End of year</b>	<u><u>\$ 19,074</u></u>	<u><u>\$ 556,407</u></u>	<u><u>\$ 575,481</u></u>