
City of Davison, Michigan

**Financial Report
with Supplemental Information
June 30, 2018**

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet to the Statement of Net Position	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Position	14
Statement of Revenue, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
Component Units:	
Statement of Net Position	19
Statement of Activities	20-21
Notes to Financial Statements	22-49
Required Supplemental Information	50
Budgetary Comparison Schedule - General Fund	51
Budgetary Comparison Schedule - Major Special Revenue Funds	52-53
Schedule of Changes in the Net Pension Liability and Related Ratios - Nonunion Pension Plan	54
Schedule of Pension Investment Returns - Nonunion Pension Plan	55
Schedule of Pension Contributions - Nonunion Pension Plan	56
Schedule of Changes in the Net Pension Liability and Related Ratios - Union Pension Plan	57
Schedule of Pension Contributions - Union Pension Plan	58
Schedule of Changes in the Net OPEB Liability and Related Ratios	59
Schedule of OPEB Contributions	60
Note to Required Supplemental Information	61
Other Supplemental Information	62
Nonmajor Governmental Funds:	
Fund Descriptions	63
Combining Balance Sheet	64
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	65

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, 2018 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, 2018 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 16, during the year ended June 30, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to the employees of governmental employers. Our opinion is not modified with respect to this matter.

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, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Moran, PLLC

October 22, 2018

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, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position is \$3.1 million.
- The City's overall unrestricted net position is a deficit of \$8.4 million.
- General Fund revenue exceeded expenditures by \$103 thousand, leaving the General Fund with a fund balance of \$1,240,393.

Using this Annual Report

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

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

City's Net Position

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

	Governmental Activities			
	2017	2018	Change	Percent Change
Assets				
Other assets	\$ 3,958,232	\$ 4,330,593	\$ 372,361	9.4
Capital assets	5,891,840	5,666,474	(225,366)	(3.8)
Total assets	9,850,072	9,997,067	146,995	1.5
Deferred Outflows of Resources	699,427	663,590	(35,837)	(5.1)
Liabilities				
Current liabilities	170,441	140,336	(30,105)	(17.7)
Long-term liabilities	10,480,022	10,961,646	481,624	4.6
Total liabilities	10,650,463	11,101,982	451,519	4.2
Deferred Inflows of Resources	169,808	164,295	(5,513)	(3.2)
Net Position				
Investment in capital assets	4,830,277	4,684,911	(145,366)	(3.0)
Restricted	1,373,999	1,586,618	212,619	15.5
Unrestricted	(6,475,048)	(6,877,149)	(402,101)	6.2
Total net position	\$ (270,772)	\$ (605,620)	\$ (334,848)	123.7

Management's Discussion and Analysis (Continued)

	Business-type Activities			
	2017	2018	Change	Percent Change
Assets				
Other assets	\$ 3,042,762	\$ 3,423,487	\$ 380,725	12.5
Capital assets	6,689,478	6,540,610	(148,868)	(2.2)
Total assets	9,732,240	9,964,097	231,857	2.4
Deferred Outflows of Resources	214,123	230,781	16,658	7.8
Liabilities				
Current liabilities	115,773	73,582	(42,191)	(36.4)
Long-term liabilities	7,108,436	6,346,963	(761,473)	(10.7)
Total liabilities	7,224,209	6,420,545	(803,664)	(11.1)
Deferred Inflows of Resources	27,889	78,654	50,765	182.0
Net Position				
Investment in capital assets	3,719,497	3,975,629	256,132	6.9
Restricted	907,369	1,291,113	383,744	42.3
Unrestricted	(1,932,601)	(1,571,063)	361,538	(18.7)
Total net position	<u>\$ 2,694,265</u>	<u>\$ 3,695,679</u>	<u>\$ 1,001,414</u>	37.2

The governmental net position decreased 123.7 percent from a year ago, decreasing from a deficit of \$(270,772) to a deficit of \$(605,620).

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$402,101 for the governmental activities. This represents a decrease of approximately 6.2 percent. The current level of unrestricted net position for our governmental activities stands at \$(6,877,149).

The net position of business-type activities increased 37.2 percent from a year ago, increasing from \$2,697,265 to \$3,695,679.

Unrestricted net position of business-type activities increased by \$361,538, approximately 18.7 percent. The current level of unrestricted net position stands at a deficit of \$(1,571,063).

The primary reason for these changes is the adoption of GASB Statement No. 75 during 2018.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

The City's Changes in Net Position

	Governmental Activities			
	2017	2018	Change	Percent Change
Revenue				
Program revenue:				
Charges for services	\$ 694,125	\$ 736,051	\$ 41,926	6.0
Operating grants	483,671	526,212	42,541	8.8
Capital grants	190,016	61,696	(128,320)	(67.5)
General revenue:				
Property taxes	1,467,294	1,495,568	28,274	1.9
State-shared revenue	579,177	531,041	(48,136)	(8.3)
Investment earnings	6,852	9,251	2,399	35.0
Other revenue	177,365	228,193	50,828	28.7
Total revenue	3,598,500	3,588,012	(10,488)	(0.3)
Expenses				
General government	1,056,327	728,186	(328,141)	(31.1)
Public safety	1,843,889	1,460,576	(383,313)	(20.8)
Public works	1,271,287	1,239,060	(32,227)	(2.5)
Community and economic development	258,184	31,779	(226,405)	(87.7)
Recreation and culture	334,812	339,228	4,416	1.3
Debt service	17,575	16,275	(1,300)	(7.4)
Total expenses	4,782,074	3,815,104	(966,970)	(20.2)
Change in Net Position	(1,183,574)	(227,092)	956,482	(80.8)
Net Position - Beginning of year, as previously reported	912,802	(270,772)	(1,183,574)	(129.7)
Impact of GASB Statement No. 75*	-	(107,756)	(107,756)	-
Net Position - Beginning of year, as restated	912,802	(378,528)	(1,291,330)	(141.5)
Net Position - End of year	<u>\$ (270,772)</u>	<u>\$ (605,620)</u>	<u>\$ (334,848)</u>	123.7

	Business-type Activities			
	2017	2018	Change	Percent Change
Revenue				
Operating revenue	\$ 2,689,867	\$ 2,692,791	\$ 2,924	0.1
General revenue - Investment earnings	2,840	3,523	683	24.0
Total revenue	2,692,707	2,696,314	3,607	0.1
Operating Expenses	2,510,906	2,206,511	(304,395)	(12.1)
Change in Net Position	181,801	489,803	308,002	169.4
Net Position - Beginning of year, as previously reported	2,512,464	2,694,265	181,801	7.2
Impact of GASB Statement No. 75*	-	511,611	511,611	-
Net Position - Beginning of year, as restated	2,512,464	3,205,876	693,412	27.6
Net Position - End of year	<u>\$ 2,694,265</u>	<u>\$ 3,695,679</u>	<u>\$ 1,001,414</u>	37.2

*The City implemented GASB Statement No. 75 in fiscal year 2018. Fiscal year 2017 amounts shown have not been modified to reflect the retroactive application of the change; however, the ending net position for that year was adjusted to properly state the fiscal year 2018 beginning net position.

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 2018 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 \$1.3 million in 2018. 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 \$127 thousand under budget. That resulted in an overall increase in General Fund fund balance of \$103 thousand, which is higher than the amended budgeted decrease of \$5 thousand.

Capital Assets and Debt Administration

At the end of 2018, the City had invested approximately \$8.7 million in capital assets, net of related debt. Capital assets, as stated in this annual financial report, do not include some prior year infrastructure items, such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, the GASB has allowed cities to comply with this portion of Statement No. 34 prospectively. Additional information on the City's capital assets can be found in Note 5 of this report.

At year end, the City had \$982 thousand in bonds and other debt outstanding for governmental activities and \$2.6 million in bonds and other debt outstanding for business-type activities. The City had commenced an inflow and infiltration project in 2009, which is being funded with general obligation bonds. The general obligation bonds will be repaid through a 1.3487 mill levy approved by the voters. Additional information on the City's long-term debt can be found in Note 8 of this report.

Requests for Further Information

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

June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,049,820	\$ 1,936,109	\$ 4,985,929	\$ 217,096
Receivables	296,002	671,938	967,940	80
Internal balances	1,542	(1,542)	-	-
Inventory	18,116	-	18,116	-
Prepaid expenses and other assets	65,838	8,075	73,913	1,365
Restricted assets (Note 1)	-	808,907	808,907	-
Investment in joint ventures	899,275	-	899,275	-
Land held for resale (Note 1)	-	-	-	293,675
Capital assets: (Note 5)				
Assets not subject to depreciation	1,483,929	30,804	1,514,733	-
Assets subject to depreciation - Net	4,182,545	6,509,806	10,692,351	-
Total assets	9,997,067	9,964,097	19,961,164	512,216
Deferred Outflows of Resources				
Deferred pension costs (Note 9)	661,163	229,837	891,000	-
Deferred OPEB costs (Note 10)	2,427	944	3,371	-
Total deferred outflows of resources	663,590	230,781	894,371	-
Liabilities				
Accounts payable	93,203	37,130	130,333	1,772
Due to other governmental units	4,486	-	4,486	-
Deposits	-	12,009	12,009	-
Accrued liabilities and other	42,647	24,443	67,090	-
Noncurrent liabilities:				
Due within one year: (Note 8)				
Compensated absences	87,091	9,020	96,111	-
Current portion of long-term debt	85,000	415,000	500,000	-
Due in more than one year:				
Net OPEB obligation (Note 10)	5,153,267	2,004,049	7,157,316	-
Net pension liability (Note 9)	4,739,725	1,768,913	6,508,638	-
Long-term debt (Note 8)	896,563	2,149,981	3,046,544	212,961
Total liabilities	11,101,982	6,420,545	17,522,527	214,733
Deferred Inflows of Resources				
Deferred pension cost reductions (Note 9)	163,045	78,168	241,213	-
Deferred OPEB cost reductions (Note 10)	1,250	486	1,736	-
Net Position				
Net investment in capital assets	4,684,911	3,975,629	8,660,540	-
Restricted for:				
Street maintenance and construction	986,220	-	986,220	-
Debt service	590,732	-	590,732	-
Rubbish collections	9,666	-	9,666	-
Capital projects	-	482,206	482,206	-
Revenue bond reserve	-	808,907	808,907	-
Unrestricted (deficit)	(6,877,149)	(1,571,063)	(8,448,212)	297,483
Total net position	<u>\$ (605,620)</u>	<u>\$ 3,695,679</u>	<u>\$ 3,090,059</u>	<u>\$ 297,483</u>

City of Davison, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 728,186	\$ 439,464	\$ -	\$ 955
Public safety	1,460,576	19,520	-	-
Public works	1,239,060	269,597	526,212	5,057
Community and economic development	31,779	-	-	55,684
Recreation and culture	339,228	7,470	-	-
Interest on long-term debt	16,275	-	-	-
Total governmental activities	<u>3,815,104</u>	<u>736,051</u>	<u>526,212</u>	<u>61,696</u>
Business-type activities:				
Sewer Fund	883,196	1,202,510	3,121	-
Water Fund	1,323,315	1,487,160	-	-
Total business-type activities	<u>2,206,511</u>	<u>2,689,670</u>	<u>3,121</u>	<u>-</u>
Total primary government	<u>\$ 6,021,615</u>	<u>\$ 3,425,721</u>	<u>\$ 529,333</u>	<u>\$ 61,696</u>
Component units:				
Downtown Development Authority	\$ 75,190	\$ -	\$ -	\$ -
Local Development Finance Authority	18,424	-	-	-
Total component units	<u>\$ 93,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income				
Franchise fees				
Other miscellaneous income				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year - As restated (Note 16)				
Net Position - End of year				

Statement of Activities

Year Ended June 30, 2018

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (287,767)	\$ -	\$ (287,767)	\$ -
(1,441,056)	-	(1,441,056)	-
(438,194)	-	(438,194)	-
23,905	-	23,905	-
(331,758)	-	(331,758)	-
(16,275)	-	(16,275)	-
(2,491,145)	-	(2,491,145)	-
-	322,435	322,435	-
-	163,845	163,845	-
-	486,280	486,280	-
(2,491,145)	486,280	(2,004,865)	-
-	-	-	(75,190)
-	-	-	(18,424)
-	-	-	(93,614)
1,495,568	-	1,495,568	69,618
531,041	-	531,041	32,393
9,251	3,523	12,774	14
91,881	-	91,881	-
136,312	-	136,312	44,955
2,264,053	3,523	2,267,576	146,980
(227,092)	489,803	262,711	53,366
(378,528)	3,205,876	2,827,348	244,117
\$ (605,620)	\$ 3,695,679	\$ 3,090,059	\$ 297,483

City of Davison, Michigan

**Governmental Funds
Balance Sheet**

June 30, 2018

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets					
Cash and cash equivalents (Note 3)	\$ 1,135,541	\$ 476,834	\$ 431,728	\$ 601,868	\$ 2,645,971
Receivables:					
Property taxes receivable	1,182	-	-	-	1,182
Other receivables	46,846	-	-	3,121	49,967
Due from other governmental units	154,057	60,939	21,760	-	236,756
Due from other funds (Note 6)	1,827	307	145	-	2,279
Inventory	18,116	-	-	-	18,116
Prepaid expenses and other assets	61,715	1,093	516	-	63,324
Total assets	\$ 1,419,284	\$ 539,173	\$ 454,149	\$ 604,989	\$ 3,017,595
Liabilities					
Accounts payable	\$ 86,050	\$ 1,861	\$ 458	\$ 4,591	\$ 92,960
Due to other governmental units	4,486	-	-	-	4,486
Due to other funds (Note 6)	1,158	-	-	-	1,158
Accrued liabilities and other	32,422	546	4,237	-	37,205
Total liabilities	124,116	2,407	4,695	4,591	135,809
Deferred Inflows of Resources -					
Unavailable revenue (Note 1)	54,775	1,936	-	3,121	59,832
Fund Balances					
Nonspendable:					
Inventory	18,116	-	-	-	18,116
Prepays	61,715	1,093	516	-	63,324
Restricted:					
Street maintenance and construction	-	533,737	448,938	-	982,675
Debt service	-	-	-	587,611	587,611
Rubbish collections	-	-	-	9,666	9,666
Unassigned	1,160,562	-	-	-	1,160,562
Total fund balances	1,240,393	534,830	449,454	597,277	2,821,954
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,419,284	\$ 539,173	\$ 454,149	\$ 604,989	\$ 3,017,595

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$	2,821,954
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		5,311,770
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		59,832
Investments in joint ventures are not financial resources and are not reported in the funds		899,275
Bonds payable are not due and payable in the current period and are not reported in the funds		(981,563)
Accrued interest is not due and payable in the current period and is not reported in the funds		(3,988)
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		(87,091)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability		(4,739,725)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities		(5,153,267)
Deferred outflows of resources related to pensions		661,163
Deferred outflows of resources related to OPEB		2,427
Deferred inflows of resources related to pensions		(163,045)
Deferred inflows of resources related to OPEB		(1,250)
Internal service funds are included as part of governmental activities		767,888
Net Position of Governmental Activities	\$	<u>(605,620)</u>

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 1,358,804	\$ -	\$ -	\$ 136,764	\$ 1,495,568
Special assessments	-	-	-	266,220	266,220
Intergovernmental:					
Federal grants	55,684	-	-	-	55,684
State-shared revenue and grants	599,854	383,994	142,218	-	1,126,066
Charges for services	26,195	-	-	-	26,195
Fines and forfeitures	9,528	-	-	-	9,528
Licenses and permits	12,207	-	-	-	12,207
Interest and rentals:					
Investment earnings	4,246	271	258	984	5,759
Rental income	76,244	-	-	-	76,244
Other revenue:					
Miscellaneous income	176,470	-	-	-	176,470
Cable franchise fees	91,881	-	-	-	91,881
Total revenue	2,411,113	384,265	142,476	403,968	3,341,822
Expenditures					
Current:					
General government	292,549	-	-	-	292,549
Public safety	1,256,086	-	-	-	1,256,086
Public works	435,690	218,350	122,625	285,572	1,062,237
Community and economic development	31,779	-	-	-	31,779
Recreation and culture	291,852	-	-	-	291,852
Debt service:					
Principal	-	-	-	80,000	80,000
Interest on long-term debt	-	-	-	16,600	16,600
Total expenditures	2,307,956	218,350	122,625	382,172	3,031,103
Excess of Revenue Over Expenditures	103,157	165,915	19,851	21,796	310,719
Other Financing Sources (Uses)					
Transfers in (Note 6)	-	-	35,170	-	35,170
Transfers out (Note 6)	-	(35,170)	-	-	(35,170)
Total other financing (uses) sources	-	(35,170)	35,170	-	-
Net Change in Fund Balances	103,157	130,745	55,021	21,796	310,719
Fund Balances - Beginning of year	1,137,236	404,085	394,433	575,481	2,511,235
Fund Balances - End of year	<u>\$ 1,240,393</u>	<u>\$ 534,830</u>	<u>\$ 449,454</u>	<u>\$ 597,277</u>	<u>\$ 2,821,954</u>

Governmental Funds

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

Year Ended June 30, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$	310,719
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		152,061
Depreciation expense		(262,726)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available		(59,367)
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		(7,449)
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
Change in investment in joint venture		64,965
Change in accrued interest payable		325
The change in the net pension liability is recorded when incurred in the statement of activities		(200,686)
The change in the net OPEB liability is recorded when incurred in the statement of activities		(245,733)
Change in deferred outflows of resources related to pensions are recorded in the statement of activities		(38,264)
Change in deferred outflows of resources related to OPEB are recorded in the statement of activities		2,427
Change in deferred inflows of resources related to pensions are recorded in the statement of activities		6,763
Change in deferred inflows of resources related to OPEB are recorded in the statement of activities		(1,250)
Internal service funds are included as part of governmental activities		(28,877)
Change in Net Position of Governmental Activities	\$	<u>(227,092)</u>

Proprietary Funds
Statement of Net Position

June 30, 2018

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,434,535	\$ 501,574	\$ 1,936,109	\$ 403,849
Receivables:				
Receivables from sales to customers on account	303,734	368,204	671,938	-
Other receivables	-	-	-	8,097
Due from other funds	335	-	335	421
Prepaid expenses and other assets	2,634	5,441	8,075	2,514
Total current assets	1,741,238	875,219	2,616,457	414,881
Noncurrent assets:				
Restricted assets (Note 1)	-	808,907	808,907	-
Capital assets - Net (Note 5)	906,269	5,634,341	6,540,610	354,704
Total noncurrent assets	906,269	6,443,248	7,349,517	354,704
Total assets	2,647,507	7,318,467	9,965,974	769,585
Deferred Outflows of Resources				
Deferred pension costs (Note 9)	82,084	147,753	229,837	-
Deferred OPEB costs (Note 10)	337	607	944	-
Total deferred outflows of resources	82,421	148,360	230,781	-
Liabilities				
Current liabilities:				
Accounts payable	35,317	1,813	37,130	243
Due to other funds (Note 6)	-	1,877	1,877	-
Deposits	-	12,009	12,009	-
Accrued liabilities and other	1,965	22,478	24,443	1,454
Compensated absences (Note 8)	1,704	7,316	9,020	-
Current portion of long-term debt (Note 8)	-	415,000	415,000	-
Total current liabilities	38,986	460,493	499,479	1,697
Noncurrent liabilities:				
Net pension liability (Note 9)	631,754	1,137,159	1,768,913	-
Net OPEB obligation (Note 10)	715,732	1,288,317	2,004,049	-
Long-term debt (Note 8)	-	2,149,981	2,149,981	-
Total noncurrent liabilities	1,347,486	4,575,457	5,922,943	-
Total liabilities	1,386,472	5,035,950	6,422,422	1,697
Deferred Inflows of Resources				
Deferred pension cost reductions (Note 9)	27,917	50,251	78,168	-
Deferred OPEB cost reductions (Note 10)	174	312	486	-
Total deferred inflows of resources	28,091	50,563	78,654	-
Net Position				
Net investment in capital assets	906,269	3,069,360	3,975,629	354,704
Restricted:				
Capital improvement	368,530	113,676	482,206	-
Revenue bond reserve	-	808,907	808,907	-
Unrestricted (deficit)	40,566	(1,611,629)	(1,571,063)	413,184
Total net position	\$ 1,315,365	\$ 2,380,314	\$ 3,695,679	\$ 767,888

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

Year Ended June 30, 2018

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
Operating Revenue				
Sale of water	\$ -	\$ 1,414,109	\$ 1,414,109	\$ -
Sewage disposal charges	1,196,510	-	1,196,510	-
Other sales to customers	-	7,073	7,073	-
Miscellaneous	6,000	65,978	71,978	-
Charges to other funds	-	-	-	308,065
Total operating revenue	1,202,510	1,487,160	2,689,670	308,065
Operating Expenses				
Cost of sewage treatment	515,686	-	515,686	-
Water plant operations	-	30,776	30,776	-
Wages and benefits	213,817	739,213	953,030	125,735
Supplies	24,411	31,746	56,157	26,235
Heat, light, and power	7,162	78,000	85,162	-
Equipment maintenance and repair	50,329	78,582	128,911	49,668
Insurance expense	7,581	10,873	18,454	11,694
Professional fees	10,967	14,726	25,693	-
Miscellaneous	7,790	29,926	37,716	-
Depreciation	45,453	242,554	288,007	127,102
Total operating expenses	883,196	1,256,396	2,139,592	340,434
Operating Income (Loss)	319,314	230,764	550,078	(32,369)
Nonoperating Revenue (Expense)				
Investment income	1,708	1,815	3,523	3,492
Interest expense	-	(66,919)	(66,919)	-
Capital grant	3,121	-	3,121	-
Total nonoperating revenue (expense)	4,829	(65,104)	(60,275)	3,492
Change in Net Position	324,143	165,660	489,803	(28,877)
Net Position - Beginning of year - As restated (Note 16)	991,222	2,214,654	3,205,876	796,765
Net Position - End of year	\$ 1,315,365	\$ 2,380,314	\$ 3,695,679	\$ 767,888

Proprietary Funds
Statement of Cash Flows

Year Ended June 30, 2018

	Enterprise Funds			Governmental
	Sewer Fund	Water Fund	Total	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,192,274	\$ 1,480,469	\$ 2,672,743	\$ -
Receipts from (payments for) interfund services and reimbursements	(335)	50	(285)	307,644
Payments to suppliers	(553,279)	(277,682)	(830,961)	(91,597)
Payments to employees	(338,939)	(529,915)	(868,854)	(125,363)
Internal activity - Payments (to) from other funds	(457)	913	456	-
Other payments	-	-	-	(2,380)
Net cash and cash equivalents provided by operating activities	299,264	673,835	973,099	88,304
Cash Flows from Capital and Related Financing Activities				
Receipt of capital grants	3,121	-	3,121	-
Purchase of capital assets	(41,263)	(97,876)	(139,139)	(12,401)
Principal and interest paid on capital debt	-	(474,450)	(474,450)	-
Net cash and cash equivalents used in capital and related financing activities	(38,142)	(572,326)	(610,468)	(12,401)
Cash Flows Provided by Investing Activities -				
Interest received on investments	1,708	1,815	3,523	3,492
Net Increase in Cash	262,830	103,324	366,154	79,395
Cash and Cash Equivalents - Beginning of year	1,171,705	1,207,157	2,378,862	324,454
Cash and Cash Equivalents - End of year	\$ 1,434,535	\$ 1,310,481	\$ 2,745,016	\$ 403,849
Statement of Net Position Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,434,535	\$ 501,574	\$ 1,936,109	\$ 403,849
Restricted cash	-	808,907	808,907	-
Total cash and cash equivalents	\$ 1,434,535	\$ 1,310,481	\$ 2,745,016	\$ 403,849
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income (loss)	\$ 319,314	\$ 230,764	\$ 550,078	\$ (32,369)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	45,453	242,554	288,007	127,102
Changes in assets and liabilities:				
Receivables	(10,236)	(6,691)	(16,927)	(2,380)
Due to and from other funds	(792)	(2,691)	(3,483)	(421)
Prepaid and other assets	406	35,097	35,503	(452)
Net pension or OPEB asset	921,349	209,298	1,130,647	372
Accounts payable	16,744	(38,150)	(21,406)	(3,548)
Accrued and other liabilities	(992,974)	3,654	(989,320)	-
Net cash and cash equivalents provided by operating activities	\$ 299,264	\$ 673,835	\$ 973,099	\$ 88,304

Fiduciary Funds
Statement of Fiduciary Net Position

June 30, 2018

	Nonunion Pension Benefit Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 21,923	\$ 4,567
Investments:		
Stocks	390,796	-
Bonds	145,229	-
Real estate	14,110	-
Mutual funds	527,766	-
Receivables	2,302	-
Total assets	1,102,126	\$ 4,567
Liabilities - Accounts payable	2,533	\$ 4,567
Net Position - Held in trust for pension	\$ 1,099,593	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2018

	Nonunion Pension Benefit Trust Fund
Additions	
Investment income (expense):	
Interest and dividends	\$ 43,046
Net increase in fair value of investments	9,341
Investment-related expenses	(8,334)
Net investment income	44,053
Contributions - Employer	40,700
Total additions	84,753
Deductions	
Benefit payments	83,123
Administrative expenses	2,533
Total deductions	85,656
Net Decrease in Net Position Held in Trust	(903)
Net Position Held in Trust for Pension - Beginning of year	1,100,496
Net Position Held in Trust for Pension - End of year	\$ 1,099,593

Component Units
Statement of Net Position

June 30, 2018

	Downtown Development Authority	Local Development Finance Authority	Total
Assets			
Cash and cash equivalents	\$ 70,910	\$ 146,186	\$ 217,096
Receivables	80	-	80
Prepaid expenses and other assets	765	600	1,365
Land held for resale (Note 1)	-	293,675	293,675
Total assets	71,755	440,461	512,216
Liabilities			
Accounts payable	1,772	-	1,772
Noncurrent liabilities - Due in more than one year - Long-term debt (Note 8)	-	212,961	212,961
Total liabilities	1,772	212,961	214,733
Net Position - Unrestricted	\$ 69,983	\$ 227,500	\$ 297,483

City of Davison, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Downtown Development Authority	\$ 75,190	\$ -	\$ -	\$ -
Local Development Finance Authority	18,424	-	-	-
Total	\$ 93,614	\$ -	\$ -	\$ -

General revenue:

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

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Component Units
Statement of Activities

Year Ended June 30, 2018

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Local Development Finance Authority	Total
\$ (75,190)	\$ -	\$ (75,190)
-	(18,424)	(18,424)
(75,190)	(18,424)	(93,614)
62,859	6,759	69,618
-	32,393	32,393
14	-	14
44,955	-	44,955
107,828	39,152	146,980
32,638	20,728	53,366
37,345	206,772	244,117
\$ 69,983	\$ 227,500	\$ 297,483

Note 1 - Significant Accounting Policies

Reporting Entity

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

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

Blended Component Units

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

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

Discretely Presented Component Units

Downtown Development Authority

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and 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.

Local Development Finance Authority

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

Report Presentation

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

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

Note 1 - Significant Accounting Policies (Continued)

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

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

Fund Accounting

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

Governmental Funds

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

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

Proprietary Funds

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

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

The City's internal service 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.

Fiduciary Funds

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

- The Nonunion Pension Benefit Trust Fund, 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.

Note 1 - Significant Accounting Policies (Continued)

Interfund Activity

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

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

Basis of Accounting

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

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

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

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

Specific Balances and Transactions

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Note 1 - Significant Accounting Policies (Continued)

Receivables and Payables

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

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

Inventories and Prepaid Items

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

Restricted Assets

The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets and at June 30, 2018 are \$808,907.

Land Held for Resale

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

Capital Assets

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

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

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

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

Note 1 - Significant Accounting Policies (Continued)

Long-term Obligations

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

Deferred Outflows/Inflows of Resources

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

The City reports deferred outflows related to 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 and OPEB can be found in Notes 9 and 10, respectively.

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

The City has various items that qualify for reporting in this category. The deferred inflows of resources related to the defined benefit pension plans are reported in the government-wide financial statements and the Water and Sewer Funds. Details of the deferred inflows of resources related to pension and OPEB can be found in Notes 9 and 10, respectively. 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.

Net Position Flow Assumption

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

Note 1 - Significant Accounting Policies (Continued)

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

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

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

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

Property Tax Revenue

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

The City's 2017 tax is levied and collectible on July 1 2017 and is recognized as revenue in the year ended June 30, 2018 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the City totaled \$104.6 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 12.771 mills for operating and 1.3487 mills for repayment of debt. This resulted in \$1.289 million for operating and \$136 thousand for debt retirement.

Note 1 - Significant Accounting Policies (Continued)

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

The captured taxable values in excess of the initial taxable values for June 30, 2018 by district are as follows:

District 1	\$	1,853,446
District 2		303,669

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

In 1997, 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, 2018 is \$452,228.

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:

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

Note 1 - Significant Accounting Policies (Continued)

The duration of the Brownfield Plan shall be 30 years. As of June 30, 2018, there has been no activity for the BRA.

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

Pension

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

Other Postemployment Benefit Costs

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

Compensated Absences (Leave Time)

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

Note 1 - Significant Accounting Policies (Continued)

Use of Estimates

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

Upcoming Accounting Pronouncements

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

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

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, 2017	\$ (655,467)
Current year permit revenue	10,287
Related expenses - Direct costs	<u>35,792</u>
Current year shortfall	<u>(25,505)</u>
Cumulative shortfall June 30, 2018	<u><u>\$ (680,972)</u></u>

Note 3 - Deposits and Investments

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

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,548,551 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The DDA and LDFA had no bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

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

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

Fiduciary Funds	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fixed income	\$ 145,229	\$ -	\$ 29,209	\$ 73,976	\$ 42,044

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of June 30, 2018, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Fiduciary Funds			
Fixed income	\$ 56,470	BBB+	S&P
Fixed income	29,405	BBB	S&P
Fixed income	45,296	BBB-	S&P
Fixed Income	14,058	BB-	S&P
Mutual funds - Bonds	257,361	not rated	N/A

Note 4 - Fair Value Measurements

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

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

The City has the following recurring fair value measurements as of June 30, 2018:

<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2018</u>				
	<u>Quoted Prices in</u>			
	<u>Active Markets</u>	<u>Significant Other</u>	<u>Significant</u>	
	<u>for Identical</u>	<u>Observable</u>	<u>Unobservable</u>	
	<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>	<u>Balance at June</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>30, 2018</u>
Investments by Fair Value Level				
Fixed income	\$ 145,229	\$ -	\$ -	\$ 145,229
Equity	390,796	-	-	390,796
Mutual funds	527,766	-	-	527,766
Real estate	14,110	-	-	14,110
	<u>1,077,901</u>	<u>-</u>	<u>-</u>	<u>1,077,901</u>
Total investments by fair value level	<u>\$ 1,077,901</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,077,901</u>

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

June 30, 2018

Note 5 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 1,470,882	\$ -	\$ -	\$ -	\$ 1,470,882
Construction in progress	9,233	(9,233)	13,047	-	13,047
Subtotal	1,480,115	(9,233)	13,047	-	1,483,929
Capital assets being depreciated:					
Infrastructure	4,757,970	-	-	-	4,757,970
Buildings and improvements	1,495,241	-	-	-	1,495,241
Machinery and equipment	2,078,388	-	37,391	(96,784)	2,018,995
Improvements other than buildings	733,250	9,233	114,024	-	856,507
Subtotal	9,064,849	9,233	151,415	(96,784)	9,128,713
Accumulated depreciation:					
Infrastructure	1,515,090	-	214,645	-	1,729,735
Buildings and improvements	922,978	-	23,190	-	946,168
Machinery and equipment	1,602,857	-	135,348	(96,784)	1,641,421
Improvements other than buildings	612,199	-	16,645	-	628,844
Subtotal	4,653,124	-	389,828	(96,784)	4,946,168
Net capital assets being depreciated	4,411,725	9,233	(238,413)	-	4,182,545
Net capital assets	<u>\$ 5,891,840</u>	<u>\$ -</u>	<u>\$ (225,366)</u>	<u>\$ -</u>	<u>\$ 5,666,474</u>

Business-type Activities

	Balance July 1, 2017	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	-	29,804	-	29,804
Subtotal	1,000	29,804	-	30,804
Capital assets being depreciated:				
Water and sewer lines	13,015,251	36,735	-	13,051,986
Buildings and improvements	139,395	-	-	139,395
Machinery and equipment	200,677	72,600	-	273,277
Subtotal	13,355,323	109,335	-	13,464,658
Accumulated depreciation:				
Water and sewer lines	6,411,836	278,804	-	6,690,640
Buildings and improvements	74,243	3,429	-	77,672
Machinery and equipment	180,766	5,774	-	186,540
Subtotal	6,666,845	288,007	-	6,954,852
Net capital assets being depreciated	6,688,478	(178,672)	-	6,509,806
Net capital assets	<u>\$ 6,689,478</u>	<u>\$ (148,868)</u>	<u>\$ -</u>	<u>\$ 6,540,610</u>

June 30, 2018

Note 5 - Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 148,509
Public safety		3,248
Public works		204,329
Recreation and culture		<u>33,742</u>
Total governmental activities		<u>\$ 389,828</u>
Business-type activities:		
Sewer		\$ 45,453
Water		<u>242,554</u>
Total business-type activities		<u>\$ 288,007</u>

Assets for the component unit totaled \$24,742 for the year ended June 30, 2018. All assets were fully depreciated.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 1,827
Major Streets Fund	General Fund	307
Local Streets Fund	General Fund	145
Sewer Fund	General Fund	285
	Water Fund	<u>50</u>
	Total Sewer Fund	335
Internal Service Fund	General Fund	<u>421</u>
	Total General Fund	<u>\$ 3,035</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 composed of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Major Streets Fund	Local Streets Fund	\$ 35,170

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.

June 30, 2018

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, 2018, the lease is in the third year of a five-year renewal option. The City also entered into a month-to-month lease with the district court for office space. The rents will be received as detailed below:

Fiscal Years Ending	Amount
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.

Long-term debt activity for the year ended June 30, 2018 can be summarized as follows:

Governmental Activities

	Interest Rate Ranges	Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2007 General Obligation Capital Improvement Bonds	1.625%	10/1/2028	\$ 1,061,563	\$ -	\$ (80,000)	\$ 981,563	\$ 85,000
Accumulated compensated absences			79,642	95,074	(87,625)	87,091	87,091
Total governmental activities			<u>\$ 1,141,205</u>	<u>\$ 95,074</u>	<u>\$ (167,625)</u>	<u>\$ 1,068,654</u>	<u>\$ 172,091</u>

Business-type Activities

	Interest Rate Ranges	Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable:							
2003 Water Capital Improvement Bonds	1.2%-4.45%	10/1/2018	\$ 100,000	\$ -	\$ (50,000)	\$ 50,000	\$ 50,000
Drinking Water Revolving Loan Fund Debt	2.5%	10/1/2024	2,614,981	-	(315,000)	2,299,981	325,000
2013 Water Capital Improvement Bonds	2.0%	10/1/2023	255,000	-	(40,000)	215,000	40,000
Total bonds payable			2,969,981	-	(405,000)	2,564,981	415,000
Accumulated compensated absences			10,653	10,871	(12,504)	9,020	9,020
Total business-type activities			<u>\$ 2,980,634</u>	<u>\$ 10,871</u>	<u>\$ (417,504)</u>	<u>\$ 2,574,001</u>	<u>\$ 424,020</u>

June 30, 2018

Note 8 - Long-term Debt (Continued)

Component Unit Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Land installment purchases:							
Rising Street	4.88%	10/1/2019	\$ 120,281	\$ -	\$ -	\$ 120,281	\$ -
South State Street	4.65%	10/1/2020	92,680	-	-	92,680	-
Total loans payable			\$ 212,961	\$ -	\$ -	\$ 212,961	\$ -

Debt Service Requirements to Maturity

Years Ending June 30	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
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	90,000	9,694	99,694	410,000	20,012	430,012	-	-	-
2024-2027	270,000	20,307	290,307	599,981	13,125	613,106	-	-	-
2028-2029	281,563	6,807	288,370	-	-	-	-	-	-
Total	\$ 981,563	\$ 89,560	\$ 1,071,123	\$ 2,564,981	\$ 208,911	\$ 2,773,892	\$ 212,961	\$ -	\$ 212,961

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

Note 9 - Defined Benefit Pension Plans

Plan Description

Union and Supervisors

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

Nonunion

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

Benefits Provided

Union and Supervisors

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

Note 9 - Defined Benefit Pension Plans (Continued)

Police Patrol

All full-time police patrol and dispatcher employees who are members of a class of employees covered by a collective bargaining agreement between the City of Davison, Michigan and a union representing its police employees are eligible to participate in the MERS police patrol pension plan immediately following their hire-in date. As of December 31, 2017, the most recent valuation, there were six active plan members, seven retirees and beneficiaries receiving benefits, and one terminated plan member not yet receiving benefits.

Per union contract, all participants must contribute 8 percent of their total compensation to MERS. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

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

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement 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, 2017, the most recent valuation, there were four active plan members, four retirees and beneficiaries receiving benefits, and one terminated plan members not yet receiving benefits.

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

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

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

Police Dispatchers/Secretaries

All full-time police department dispatchers/secretaries were eligible to participate in the MERS police dispatchers/secretaries pension plan effective immediately following their hire-in date. The plan is closed to new employees. As of December 31, 2017, the most recent valuation, there were no active plan members, two retirees and beneficiaries receiving benefits, and no terminated plan members not yet receiving benefits.

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

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

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

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, 2017, the most recent valuation, there were six active plan members, six retirees and beneficiaries receiving benefits, and one 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.

Note 9 - Defined Benefit Pension Plans (Continued)

Per union contract, participants must contribute 2 percent of their total compensation to MERS for employees included in the closed division or 5 percent of their total compensation to MERS for new employees hired on or after July 1, 2012. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

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

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

Nonunion

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

Employees Covered by Benefit Terms

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

	Union and Supervisors	Nonunion Pension Plan
Inactive plan members or beneficiaries currently receiving benefits	19	5
Inactive plan members entitled to but not yet receiving benefits	3	2
Active plan members	16	2
Total employees covered by MERS	<u>38</u>	<u>9</u>

Contributions

Union and Supervisors

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

The terms of the plans require that the City make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 3.97 percent to 43.83 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.

Nonunion

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the City Council in accordance with the City Charter and plan provisions. For the year ended June 30, 2018, the annual required contribution was \$34,677.

Note 9 - Defined Benefit Pension Plans (Continued)

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, 2018:

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

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.79 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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

	<u>Union and Supervisors</u>	<u>Nonunion Pension Plan</u>
Measurement date used for the City NPL	December 31, 2017	June 30, 2018

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

Union and Supervisors

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2016	\$ 12,163,907	\$ 6,064,952	\$ 6,098,955
Changes for the year:			
Service cost	162,910	-	162,910
Interest	947,829	-	947,829
Differences between expected and actual experience	437,509	-	437,509
Contributions - Employer	-	505,329	(505,329)
Contributions - Employee	-	50,092	(50,092)
Net investment income	-	786,708	(786,708)
Benefit payments, including refunds	(794,997)	(794,997)	-
Administrative expenses	-	(12,479)	12,479
Net changes	753,251	534,653	218,598
Balance at December 31, 2017	\$ 12,917,158	\$ 6,599,605	\$ 6,317,553

June 30, 2018

Note 9 - Defined Benefit Pension Plans (Continued)

Nonunion Pension Plan

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at June 30, 2017	\$ 1,248,286	\$ 1,100,496	\$ 147,790
Changes for the year:			
Service cost	3,011	-	3,011
Interest	72,403	-	72,403
Differences between expected and actual experience	8,826	-	8,826
Changes in assumptions	43,339	-	43,339
Contributions - Employer	-	40,700	(40,700)
Net investment income	-	52,387	(52,387)
Benefit payments, including refunds	(83,123)	(83,123)	-
Administrative expenses	-	(8,803)	8,803
Net changes	44,456	1,161	43,295
Balance at June 30, 2018	\$ 1,292,742	\$ 1,101,657	\$ 191,085

The plan's fiduciary net position represents 85.2 percent of the total pension liability.

Assumption Changes - Nonunion

For the June 30, 2018 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 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, 2018, the City recognized pension expense of \$891,841.

At June 30, 2018, 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	\$ 405,303	\$ (66,403)
Changes in assumptions	227,984	(60,364)
Net difference between projected and actual earnings on pension plan investments	19,883	(114,446)
Employer contributions to the plan subsequent to the measurement date	237,830	-
Total	\$ 891,000	\$ (241,213)

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 \$237,830 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.

Note 9 - Defined Benefit Pension Plans (Continued)

Years Ending June 30	Amount
2019	\$ 274,104
2020	100,416
2021	25,807
2022	(47,034)
2023	12,864
Thereafter	45,800

Actuarial Assumptions

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

	Union and Supervisors	Nonunion Pension Plan
Inflation	2.50	2.25
Salary increases (including inflation)	3.75	n/a
Investment rate of return (Gross of investment expenses)	8.00	6.00

Union and Supervisors

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

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

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

Nonunion

Mortality rates were based on the 2018 IRS PPA Mortality Table.

Discount Rate

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

	Union and Supervisors	Nonunion Pension Plan
Discount rate used to measure TPL	8.00%	6.00%

Projected Cash Flows

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

Note 9 - Defined Benefit Pension Plans (Continued)

Investment Rate of Return

Union and Supervisors

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2017, the measurement date, for each major asset class are summarized in the following table:

Asset Class	December 31, 2017	
	Target Allocation (%)	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.65 %
Global fixed income	18.50	1.76
Real assets	13.50	7.72
Diversifying strategies	12.50	5.50

Nonunion

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. Best estimates of arithmetic real rates of return as of June 30, 2018 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	June 30, 2018	
	Target Allocation	Long-term Expected Real Rate of Return
Equity	58.60 %	6.00 %
Fixed income	36.19	3.50
Cash	5.20	-

Note 9 - Defined Benefit Pension Plans (Continued)

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

Union and Supervisors

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

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the City	\$ 7,942,109	\$ 6,317,553	\$ 4,969,732

Nonunion

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

	1 Percent Decrease (5.00%)	Current Discount Rate (6.00%)	1 Percent Increase (7.00%)
Net pension liability of the City	\$ 335,734	\$ 191,085	\$ 68,849

Pension Plan Fiduciary Net Position

Union and Supervisors

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows 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.

Nonunion

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

Note 10 - Other Postemployment Benefit Plan

Plan Description

The City provides retiree healthcare benefits to eligible employees and their families for employees hired prior to July 1, 2012. For DPW, police, and union office staff employees hired after July 1, 2012, the City provides retiree healthcare benefits to eligible employees, and the employee is required to pay 20 percent of the monthly premiums.

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

Benefits Provided

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

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	<u>City OPEB Plan</u>
Date of member count	June 30, 2018
Inactive plan members or beneficiaries currently receiving benefits	20
Active plan members	<u>20</u>
Total plan members	<u><u>40</u></u>

Contributions

Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2018, the City made payments for postemployment health benefit premiums of \$269,635 and additional contributions of \$55,859.

Net OPEB Liability

The City has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability. The June 30, 2018 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2018 measurement date. The June 30, 2018 measurement date total OPEB liability was determined by an actuarial valuation performed as of that date.

Note 10 - Other Postemployment Benefit Plan (Continued)

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 7,355,844	\$ 539,825	\$ 6,816,019
Changes for the year:			
Service cost	147,365	-	147,365
Interest	559,825	-	559,825
Differences between expected and actual experience	4,216	-	4,216
Contributions - Employer	-	325,494	(325,494)
Net investment income	-	46,113	(46,113)
Benefit payments, including refunds	(269,635)	(269,635)	-
Administrative expenses	-	(1,498)	1,498
Net changes	441,771	100,474	341,297
Balance at June 30, 2018	<u>\$ 7,797,615</u>	<u>\$ 640,299</u>	<u>\$ 7,157,316</u>

The plan's fiduciary net position represents 8.2 percent of the total OPEB liability.

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$665,157.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,371	\$ -
Net difference between projected and actual earnings	-	(1,736)
Total	<u>\$ 3,371</u>	<u>\$ (1,736)</u>

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

Years Ending June 30	Amount
2019	\$ 411
2020	411
2021	411
2022	402

Note 10 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

	City OPEB Plan
Salary increase (including inflation)	4.0 percent
Investment rate of return (net of investment expenses)	7.75 percent
	7.25 percent, decreasing by 0.25 percent per year to an ultimate rate of 5.0 percent for 2027 and later years for medical and prescription, 5 percent per year for dental
Healthcare cost trend rate	RP-2014 Mortality Table
Mortality rates	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2018 measurement date for each major asset class included in the OPEB plan’s target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

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

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.75%)	Current Discount Rate (7.75%)	1 Percent Increase (8.75%)
Net OPEB liability of the City OPEB Plan	\$ 8,339,219	\$ 7,157,316	\$ 6,210,734

Note 10 - Other Postemployment Benefit Plan (Continued)

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

The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 7.25 percent, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.25%)	Current Healthcare Cost Trend Rate (7.25%)	1 Percent Increase (8.25%)
Net OPEB liability of the City OPEB Plan	\$ 6,113,025	\$ 7,157,316	\$ 8,466,100

OPEB Plan Fiduciary Net Position

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

Note 11 - Defined Contribution Pension Plan

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

The City's total payroll during the current year for the union office employees in the plan was \$132,805. The current year contribution was calculated based on covered payroll of \$132,805, resulting in an employer contribution of \$7,968.

Note 12 - Deferred Compensation Plan

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

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

Note 13 - Risk Management

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

Note 14 - Joint Ventures

In April 1979, the City of Davison, Michigan entered into a joint venture with Davison Township to create 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, 2018, 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.

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 \$899,275 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2018, the City was billed \$158,357 by the Fire Authority. At year end, the City owed \$41,705 to the Fire Authority for fire run services.

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

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

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

During the year ended June 30, 2018, the City's contribution to Davison Community Enrichment and Recreation was \$45,000.

Note 15 - Tax Abatements

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

For the fiscal year ended June 30, 2018, the City abated \$1,266 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 16 - Change in Accounting Principle

During the current year, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the government-wide statements and the proprietary funds now include a liability for the unfunded portion of the City's retiree healthcare costs. Some of the change in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan note for further details. This change does not impact the General Fund or any other governmental funds.

As a result of implementing this statement, the beginning net position of the governmental activities, business-type activities, and Water and Sewer Fund have been restated as follows:

	Net Position		
	June 30, 2017 - As Previously Reported	June 30, 2017 - As Restated	Adjustment for Implementation of GASB Statement No. 75
Governmental activities	\$ (270,772)	\$ (378,528)	\$ (107,756)
Business-type activities/Water and Sewer Fund	2,694,265	3,205,876	511,611
Water Fund	1,908,486	2,214,654	306,168
Sewer Fund	785,779	991,222	205,443

The impact on the prior year changes in net position could not be determined.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,333,000	\$ 1,333,000	\$ 1,358,804	\$ 25,804
Intergovernmental:				
Federal grants	-	55,000	55,684	684
State-shared revenue and grants	617,050	594,050	599,854	5,804
Charges for services	32,500	32,500	26,195	(6,305)
Fines and forfeitures	22,000	12,000	9,528	(2,472)
Licenses and permits	12,200	12,200	12,207	7
Interest and rentals	81,300	81,300	80,490	(810)
Other revenue	263,750	283,750	268,351	(15,399)
Total revenue	2,361,800	2,403,800	2,411,113	7,313
Expenditures				
Current services:				
General government:				
Executive expenses	18,450	18,450	15,157	3,293
CEO (manager, supervisor, mayor)	207,700	193,700	187,192	6,508
Elections	10,100	4,100	2,050	2,050
Treasurer	94,795	98,295	95,967	2,328
Assessing	28,100	28,100	26,309	1,791
Board of appeals	1,350	1,350	73	1,277
Clerk	459,600	455,600	434,147	21,453
Hall and grounds	74,300	79,300	71,419	7,881
Less reimbursement from:	(9,195)	(9,195)	(9,195)	-
Major streets	(27,585)	(27,585)	(27,585)	-
Water	(226,205)	(226,205)	(226,205)	-
Sewer	(226,205)	(226,205)	(226,205)	-
Equipment	(50,575)	(50,575)	(50,575)	-
Public safety:				
Police protection	1,120,175	1,102,175	1,061,937	40,238
Fire protection	136,000	156,000	158,357	(2,357)
Building and code enforcement	37,000	37,000	35,792	1,208
Public works - Public improvements	441,950	454,550	435,690	18,860
Community and economic development	14,100	36,100	31,779	4,321
Recreation and culture:				
Library	42,175	42,175	36,060	6,115
Parks and recreation	243,400	263,400	251,734	11,666
Senior citizens	4,100	4,100	4,058	42
Total expenditures	2,393,530	2,434,630	2,307,956	126,674
Excess of Revenue (Under) Over Expenditures	(31,730)	(30,830)	103,157	133,987
Other Financing Sources - Transfers in	8,230	25,830	-	(25,830)
Net Change in Fund Balance	(23,500)	(5,000)	103,157	108,157
Fund Balance - Beginning of year	1,137,236	1,137,236	1,137,236	-
Fund Balance - End of year	\$ 1,113,736	\$ 1,132,236	\$ 1,240,393	\$ 108,157

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

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 341,500	\$ 375,500	\$ 383,994	\$ 8,494
Investment income	100	100	271	171
Total revenue	341,600	375,600	384,265	8,665
Expenditures - Current - Highway and streets	241,635	265,635	218,350	47,285
Excess of Revenue Over Expenditures	99,965	109,965	165,915	55,950
Other Financing Uses - Transfers out	(35,170)	(35,170)	(35,170)	-
Net Change in Fund Balance	64,795	74,795	130,745	55,950
Fund Balance - Beginning of year	404,085	404,085	404,085	-
Fund Balance - End of year	<u>\$ 468,880</u>	<u>\$ 478,880</u>	<u>\$ 534,830</u>	<u>\$ 55,950</u>

City of Davison, Michigan

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

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 127,000	\$ 140,000	\$ 142,218	\$ 2,218
Investment income	125	125	258	133
Total revenue	127,125	140,125	142,476	2,351
Expenditures - Current - Highway and streets	162,295	169,295	122,625	46,670
Excess of Revenue (Under) Over Expenditures	(35,170)	(29,170)	19,851	49,021
Other Financing Sources - Transfers in	35,170	35,170	35,170	-
Net Change in Fund Balance	-	6,000	55,021	49,021
Fund Balance - Beginning of year	394,433	394,433	394,433	-
Fund Balance - End of year	<u>\$ 394,433</u>	<u>\$ 400,433</u>	<u>\$ 449,454</u>	<u>\$ 49,021</u>

City of Davison, Michigan

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Nonunion Pension Plan

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

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

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

Required Supplemental Information
Schedule of Pension Contributions - Nonunion Pension Plan

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 34,677	\$ 64,484	\$ 40,506	\$ 22,539	\$ 36,587	\$ 28,960	\$ 16,490	\$ 23,332	\$ 113,929	\$ 240,979
Contributions in relation to the actuarially determined contribution	40,700	71,849	40,550	22,550	36,590	28,960	36,500	257,652	114,000	240,000
Contribution Excess (Deficiency)	\$ 6,023	\$ 7,365	\$ 44	\$ 11	\$ 3	\$ -	\$ 20,010	\$ 234,320	\$ 71	\$ (979)
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 179,883	\$ 172,365	\$ 268,480	\$ 284,085	\$ 341,861
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	- %	- %	16.10 %	21.18 %	95.97 %	40.13 %	70.20 %

Notes to Schedule of Pension Contributions - Nonunion Pension Plan

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 increase 0 percent

Investment rate of return 6.00 percent

Retirement age Age 60

Mortality 2018 PPA IRS PPA Mortality Table

Other information The Mortality Rate assumptions have been updated to the 2018 PPA funding table.

City of Davison, Michigan

Required Supplemental Information

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

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

Required Supplemental Information
Schedule of Pension Contributions - Union and Supervisors Pension Plan

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 474,457	\$ 472,201	\$ 383,148	\$ 333,830	\$ 332,909	\$ 315,477	\$ 328,908	\$ 322,384	\$ 306,192	\$ 279,441
Contributions in relation to the actuarially determined contribution	523,182	472,201	390,166	339,647	332,909	315,477	328,908	322,384	306,192	279,441
Contribution Excess	\$ 48,725	\$ -	\$ 7,018	\$ 5,817	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 948,886	\$ 956,848	\$ 910,098	\$ 946,636	\$ 950,126	\$ 888,798	\$ 938,771	\$ 867,074	\$ 1,297,410	\$ 1,151,026
Contributions as a Percentage of Covered Employee Payroll	55.14 %	49.35 %	42.87 %	35.88 %	35.04 %	35.49 %	35.04 %	37.18 %	23.60 %	24.28 %

Notes to Schedule of Pension Contributions - Union Pension Plan

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, 2018 were determined based on the actuarial valuation as of December 31, 2015. The most recent valuation is as of December 31, 2017.

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 increase	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: 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.

Other information None

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

Year Ended June 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 147,365
Interest	559,825
Differences between expected and actual experience	4,216
Benefit payments, including refunds	(269,635)
Net Change in Total OPEB Liability	441,771
Total OPEB Liability - Beginning of year	7,355,844
Total OPEB Liability - End of year	\$ 7,797,615
Plan Fiduciary Net Position	
Contributions - Employer	\$ 325,494
Net investment income	46,113
Administrative expenses	(1,498)
Benefit payments, including refunds	(269,635)
Net Change in Plan Fiduciary Net Position	100,474
Plan Fiduciary Net Position - Beginning of year	539,825
Plan Fiduciary Net Position - End of year	\$ 640,299
Net OPEB Liability - Ending	\$ 7,157,316
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	8.21 %

Required Supplemental Information
Schedule of OPEB Contributions

Last Nine Fiscal Years
Years Ended June 30

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

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	22 years
Asset valuation method	10-year smoothed
Healthcare cost trend rates	7.25 percent, grading down 25 basis points each year to an ultimate rate of 5.0 percent in year 2027
Salary increase	4.00 percent
Investment rate of return	7.75 percent
Retirement age	60 years old
Mortality	1. RP-2014 Generational Mortality Tables projected back to 2006 with Scale MP-2014 and forward with generational life expectancy improvement using Scale MP-2017 2. Separate rates for employees and retirees 3. Separate rates for males and females
Other information	None

Budgetary Information

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

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

During the year, the City of Davison, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Fire protection	\$ 156,000	\$ 158,357	\$ (2,357)

Other Supplemental Information

Special Revenue Funds

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

Debt Service Funds

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

Other Supplemental Information
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2018

	Special Revenue Funds	Debt Service Funds	
	Refuse Collection Fund	Inflow and Infiltration Debt Fund	Total Nonmajor Governmental Funds
Assets - Cash and investments	\$ 9,666	\$ 595,323	\$ 604,989
Liabilities - Accounts payable	\$ -	\$ 4,591	\$ 4,591
Deferred Inflows of Resources (Note 1)	-	3,121	3,121
Total liabilities and deferred inflows of resources	-	7,712	7,712
Fund Balances			
Restricted:			
Debt service	-	587,611	587,611
Rubbish collections	9,666	-	9,666
Total fund balances	9,666	587,611	597,277
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,666	\$ 595,323	\$ 604,989

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

Year Ended June 30, 2018

	Special Revenue Fund	Debt Service Fund	
	Refuse Collection Fund	Inflow and Infiltration Debt Fund	Total Nonmajor Governmental Funds
Revenue			
Property taxes	\$ -	\$ 136,764	\$ 136,764
Special assessments	266,220	-	266,220
Interest and rentals - Investment earnings	30	954	984
Total revenue	266,250	137,718	403,968
Expenditures			
Current services - Public works	275,658	9,914	285,572
Debt service:			
Principal	-	80,000	80,000
Interest on long-term debt	-	16,600	16,600
Total expenditures	275,658	106,514	382,172
Net Change in Fund Balances	(9,408)	31,204	21,796
Fund Balances - Beginning of year	19,074	556,407	575,481
Fund Balances - End of year	\$ 9,666	\$ 587,611	\$ 597,277