

City of Davison, Michigan

**Financial Report
with Supplemental Information
June 30, 2016**

City of Davison, Michigan

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Independent Auditor's Report

To the City Council
City of Davison, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison, Michigan (the "City") as of and for the year ended June 30, 2016, 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, 2016 and the respective changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the City Council
City of Davison, Michigan

Emphasis of Matters

As described in Note 17 to the basic financial statements, the 2015 financial statements have been restated to correct a misstatement related to the other postemployment benefit liability. Our opinion is not modified with respect to this matter.

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Davison, Michigan's basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Moran, PLLC

November 8, 2016

City of Davison, Michigan

Management's Discussion and Analysis

This section of the City of Davison, Michigan's (the "City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position is \$3.4 million.
- The City's overall unrestricted net position is a deficit of \$6.9 million.
- General Fund revenue exceeds expenditures by \$34 thousand, leaving the General Fund with a fund balance of \$1,469,457.

Using this Annual Report

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

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

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

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

	Governmental Activities			Percent Change
	2015*	2016	Change	
Assets				
Other assets	\$ 4,063,738	\$ 4,340,246	\$ 276,508	7%
Capital assets	<u>5,854,639</u>	<u>5,825,372</u>	<u>(29,267)</u>	0%
Total assets	9,918,377	10,165,618	247,241	2%
Deferred Outflows of Resources	289,242	1,001,333	712,091	246%
Liabilities				
Current liabilities	331,740	487,641	155,901	47%
Long-term liabilities	<u>7,627,926</u>	<u>9,760,280</u>	<u>2,132,354</u>	28%
Total liabilities	7,959,666	10,247,921	2,288,255	29%
Deferred Inflows of Resources	<u>-</u>	<u>6,228</u>	<u>6,228</u>	
Net Position				
Investment in capital assets	4,633,076	4,683,809	50,733	1%
Restricted	1,022,552	1,108,088	85,536	8%
Unrestricted	<u>(3,407,675)</u>	<u>(4,879,095)</u>	<u>(1,471,420)</u>	-43%
Total net position	<u>\$ 2,247,953</u>	<u>\$ 912,802</u>	<u>\$ (1,335,151)</u>	-59%

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities			Percent Change
	2015*	2016	Change	
Revenue				
Program revenue:				
Charges for services	\$ 738,699	\$ 638,529	\$ (100,170)	-14%
Operating grants	366,862	415,589	48,727	13%
Capital grants	976	96,652	95,676	100%
General revenue:				
Property taxes	1,407,456	1,428,558	21,102	1%
State-shared revenue	512,469	551,242	38,773	8%
Investment earnings	4,697	7,486	2,789	59%
Other revenue	157,541	196,684	39,143	25%
Total revenue	3,188,700	3,334,740	146,040	5%
Program Expenses				
General government	828,383	1,005,338	176,955	21%
Public safety	1,497,839	1,990,514	492,675	33%
Public works	1,101,314	1,329,645	228,331	21%
Community and economic de	10,914	4,345	(6,569)	-60%
Recreation and cultural	217,721	321,174	103,453	48%
Interest on long-term debt	20,175	18,875	(1,300)	-6%
Total expenses	3,676,346	4,669,891	993,545	27%
Change in Net Position	\$ (487,646)	\$ (1,335,151)	\$ (847,505)	174%

*The 2015 net position has been restated to reflect the effects of the prior period adjustment for the change in OPEB obligation. Please refer to Note 17 to the financial statements.

The governmental net position decreased 59 percent from a year ago - decreasing from \$2,247,953 to \$912,802.

Unrestricted net position - the portion of net position that can be used to finance day-to-day operations - decreased by \$1,471,420 for the governmental activities. This represents a decrease of approximately 43 percent. The current level of unrestricted net position for our governmental activities stands at (\$4,879,095).

The City's total governmental revenue increased by \$146,040 or 5 percent.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Expenses increased by \$993,545 or 27 percent during the year. Increases were led by the increase of pension and other postemployment funding in the current year.

Business-type Activities

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

	Business-type Activities			Percent Change
	2015*	2016	Change	
Assets				
Other assets	\$ 2,818,457	\$ 2,882,141	\$ 63,684	2%
Capital assets	<u>6,850,640</u>	<u>6,714,555</u>	<u>(136,085)</u>	-2%
Total assets	9,669,097	9,596,696	(72,401)	-1%
Deferred Outflows of Resources*	99,589	361,298	261,709	
Liabilities				
Current liabilities	597,472	499,854	(97,618)	-16%
Long-term liabilities	<u>6,981,121</u>	<u>6,945,676</u>	<u>(35,445)</u>	-1%
Total liabilities	<u>7,578,593</u>	<u>7,445,530</u>	<u>(133,063)</u>	-2%
Net Position				
Investment in capital assets	3,035,659	3,344,574	308,915	10%
Restricted	1,328,376	1,205,081	(123,295)	-9%
Unrestricted	<u>(2,173,942)</u>	<u>(2,037,191)</u>	<u>136,751</u>	6%
Total net position	<u>\$ 2,190,093</u>	<u>\$ 2,512,464</u>	<u>\$ 322,371</u>	15%

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

	Business-type Activities			Percent Change
	2015*	2016	Change	
Operating revenue	\$ 2,608,319	\$ 2,659,853	\$ 51,534	2%
Operating expenses, other than depreciation	3,291,259	1,955,913	(1,335,346)	-41%
Depreciation and amortization	<u>290,873</u>	<u>295,259</u>	<u>4,386</u>	2%
Operating (Loss) Income	(973,813)	408,681	1,382,494	142%
Interest income	1,838	2,327	489	27%
Interest expense	<u>101,199</u>	<u>88,637</u>	<u>(12,562)</u>	-12%
Change in Net Position	<u>\$ (1,073,174)</u>	<u>\$ 322,371</u>	<u>\$ 1,395,545</u>	130%

*The 2015 net position has been restated to reflect the effects of the prior period adjustment for the change in OPEB obligation. Please refer to Note 17 to the financial statements.

The net position of business-type activities increased 15 percent from a year ago - increasing from \$2,190,093 to \$2,512,464. In comparison, last year's business-type net position decreased by 51 percent.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$136,751. This represents an increase of approximately 6 percent. The current level of unrestricted net position stands at (\$2,037,191).

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 2016 include the General Fund, Major Streets Fund, and Local Streets Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1.2 million in 2016. Police services are partially supported by a 1.5 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 \$142 thousand under budget. That resulted in an overall increase in General Fund fund balance of \$34 thousand, which is higher than the amended budgeted decrease of \$102 thousand.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2016, the City had invested approximately \$8.0 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. Major additions included the completion of road work on East Flint Street and the completion of further Main Street improvements and Clark Street resurfacing. Additional information on the City's capital assets can be found in Note 5 of this report.

At year end, the City had \$1.1 million in bonds and other debt outstanding for governmental activities and \$3.4 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 repayment of the general obligation bonds will be repaid through a 1.35 mill levy approved by the voters. Additional information on the City's long-term debt can be found in Note 8 of this report.

Contacting the City's Management

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

City of Davison, Michigan

Statement of Net Position June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,080,499	\$ 1,818,391	\$ 4,898,890	\$ 161,707
Receivables	336,985	662,882	999,867	-
Internal balances	(6,190)	6,190	-	-
Inventory	39,466	-	39,466	-
Prepaid expenses and other assets	73,965	8,822	82,787	1,121
Restricted assets (Note 1)	-	385,856	385,856	-
Investment in joint ventures (Note 15)	815,521	-	815,521	-
Land held for resale (Note 1)	-	-	-	293,675
Capital assets (Note 5):				
Assets not subject to depreciation	1,484,505	30,916	1,515,421	-
Assets subject to depreciation	4,340,867	6,683,639	11,024,506	-
Total assets	10,165,618	9,596,696	19,762,314	456,503
Deferred Outflows of Resources				
(Notes 9 and 10)	1,001,333	361,298	1,362,631	-
Liabilities				
Accounts payable	292,742	55,223	347,965	1,828
Due to other governmental units	6,163	-	6,163	-
Deposits	-	12,534	12,534	-
Accrued liabilities and other	30,865	32,097	62,962	-
Noncurrent liabilities:				
Due within one year (Note 8):				
Compensated absences	77,871	12,462	90,333	-
Current portion of long-term debt	80,000	400,000	480,000	-
Due in more than one year:				
Net OPEB obligation (Note 11)	4,063,337	2,029,174	6,092,511	-
Net pension liability (Notes 9 and 10)	4,635,380	1,934,059	6,569,439	-
Long-term debt (Note 8)	1,061,563	2,969,981	4,031,544	226,581
Total liabilities	10,247,921	7,445,530	17,693,451	228,409
Deferred Inflows of Resources	6,228	-	6,228	-
Net Position				
Net investment in capital assets	4,683,809	3,344,574	8,028,383	-
Restricted for:				
Street maintenance and construction	568,424	-	568,424	-
Debt service	519,029	-	519,029	-
Rubbish collections	20,635	-	20,635	-
Capital projects	-	819,225	819,225	-
Revenue bond reserve	-	385,856	385,856	-
Unrestricted	(4,879,095)	(2,037,191)	(6,916,286)	228,094
Total net position	\$ 912,802	\$ 2,512,464	\$ 3,425,266	\$ 228,094

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

City of Davison, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,005,338	\$ 328,359	\$ -	\$ 96,652
Public safety	1,990,514	31,376	-	-
Public works	1,329,645	270,774	415,589	-
Community and economic development	4,345	-	-	-
Recreation and culture	321,174	8,020	-	-
Interest on long-term debt	18,875	-	-	-
Total governmental activities	4,669,891	638,529	415,589	96,652
Business-type activities:				
Sewer Fund	1,236,277	1,180,822	-	-
Water Fund	1,103,532	1,479,031	-	-
Total business-type activities	2,339,809	2,659,853	-	-
Total primary government	\$ 7,009,700	\$ 3,298,382	\$ 415,589	\$ 96,652
Component units:				
Downtown Development Authority	\$ 162,215	\$ -	\$ -	\$ -
Local Development Finance Authority	17,951	-	-	-
Total component units	\$ 180,166	\$ -	\$ -	\$ -

General revenue:
 Property taxes
 State-shared revenue (unrestricted)
 Investment income
 Franchise fees
 Other miscellaneous income
 Gain on sale of fixed assets

Total general revenue

Change in Net Position

Net Position - Beginning of year - As restated (Note 17)

Net Position - End of year

**Statement of Activities
Year Ended June 30, 2016**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (580,327)	\$ -	\$ (580,327)	\$ -
(1,959,138)	-	(1,959,138)	-
(643,282)	-	(643,282)	-
(4,345)	-	(4,345)	-
(313,154)	-	(313,154)	-
(18,875)	-	(18,875)	-
(3,519,121)	-	(3,519,121)	-
-	(55,455)	(55,455)	-
-	375,499	375,499	-
-	320,044	320,044	-
(3,519,121)	320,044	(3,199,077)	-
-	-	-	(162,215)
-	-	-	(17,951)
-	-	-	(180,166)
1,428,558	-	1,428,558	117,188
551,242	-	551,242	-
7,486	2,327	9,813	20
92,665	-	92,665	-
104,019	-	104,019	43,967
-	-	-	350
2,183,970	2,327	2,186,297	161,525
(1,335,151)	322,371	(1,012,780)	(18,641)
2,247,953	2,190,093	4,438,046	246,735
\$ 912,802	\$ 2,512,464	\$ 3,425,266	\$ 228,094

City of Davison, Michigan

Governmental Funds Balance Sheet June 30, 2016

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,405,341	\$ 312,126	\$ 308,261	\$ 559,713	\$ 2,585,441
Receivables:					
Property taxes receivable	6,448	-	-	-	6,448
Other receivables	40,087	-	-	-	40,087
Due from other governmental units	206,094	57,488	21,913	-	285,495
Inventory	39,466	-	-	-	39,466
Prepaid expenses and other assets	71,519	380	570	-	72,469
Total assets	\$ 1,768,955	\$ 369,994	\$ 330,744	\$ 559,713	\$ 3,029,406
Liabilities					
Accounts payable	\$ 139,009	\$ 132,094	\$ 170	\$ 19,454	\$ 290,727
Due to other governmental units	6,163	-	-	-	6,163
Due to other funds (Note 6)	6,190	-	-	-	6,190
Accrued liabilities and other	25,128	50	-	-	25,178
Total liabilities	176,490	132,144	170	19,454	328,258
Deferred Inflows of Resources					
-					
Unavailable revenue (Note 1)	123,008	-	-	595	123,603
Fund Balances					
Nonspendable:					
Inventory	39,466	-	-	-	39,466
Prepays	71,519	380	570	-	72,469
Restricted:					
Street maintenance and construction	-	237,470	330,004	-	567,474
Debt service	-	-	-	519,029	519,029
Rubbish collections	-	-	-	20,635	20,635
Unassigned	1,358,472	-	-	-	1,358,472
Total fund balances	1,469,457	237,850	330,574	539,664	2,577,545
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,768,955	\$ 369,994	\$ 330,744	\$ 559,713	\$ 3,029,406

City of Davison, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2016

Fund Balance Reported in Governmental Funds	\$ 2,577,545
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	5,450,531
Investments in joint ventures are not financial resources and are not reported in the funds	815,521
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	117,375
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,141,563)
Accrued interest is not due and payable in the current period and is not reported in the funds	(4,638)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(77,871)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(4,063,337)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(4,635,380)
Deferred outflows of resources related to pensions	1,001,333
Internal Service Funds are included as part of governmental activities	<u>873,286</u>
Net Position of Governmental Activities	<u>\$ 912,802</u>

City of Davison, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 1,297,574	\$ -	\$ -	\$ 130,984	\$ 1,428,558
Licenses and permits	10,979	-	-	-	10,979
Federal grants	2,500	-	-	-	2,500
State-shared revenue and grants	645,367	308,905	106,684	-	1,060,956
Charges for services	24,025	-	-	266,580	290,605
Fines and forfeitures	19,826	-	-	-	19,826
Investment income	3,630	95	100	315	4,140
Rental income	76,794	-	-	-	76,794
Other revenue:					
Cable franchise fees	92,665	-	-	-	92,665
Miscellaneous income	133,771	9,813	-	-	143,584
Total revenue	<u>2,307,131</u>	<u>318,813</u>	<u>106,784</u>	<u>397,879</u>	<u>3,130,607</u>
Expenditures					
Current:					
General government	399,436	-	-	-	399,436
Public safety	1,166,228	-	-	-	1,166,228
Public works	402,274	328,760	82,049	276,431	1,089,514
Community and economic development	8,364	-	-	-	8,364
Recreation and culture	248,743	-	-	-	248,743
Debt service:					
Principal	-	-	-	80,000	80,000
Interest on long-term debt	-	-	-	19,200	19,200
Total expenditures	<u>2,225,045</u>	<u>328,760</u>	<u>82,049</u>	<u>375,631</u>	<u>3,011,485</u>
Excess of Revenue Over (Under) Expenditures	82,086	(9,947)	24,735	22,248	119,122
Other Financing Sources (Uses)					
Transfers in (Note 6)	-	48,500	33,450	-	81,950
Transfers out (Note 6)	(48,500)	(33,450)	-	-	(81,950)
Net Change in Fund Balances	33,586	5,103	58,185	22,248	119,122
Fund Balances - Beginning of year	1,435,871	232,747	272,389	517,416	2,458,423
Fund Balances - End of year	<u>\$ 1,469,457</u>	<u>\$ 237,850</u>	<u>\$ 330,574</u>	<u>\$ 539,664</u>	<u>\$ 2,577,545</u>

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

City of Davison, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

Net Change in Fund Balances - Total governmental funds	\$ 119,122
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	255,276
Depreciation expense	(242,506)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(31,300)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	80,000
Changes in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(2,444)
Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(714,346)
Change in investment in joint venture	36,896
Change in accrued interest payable	325
The change in the net pension liability is recorded when incurred in the statement of activities	(1,498,008)
Deferred outflows of resources (related to pensions)	712,091
Internal Service Funds are included as part of governmental activities	<u>(50,257)</u>
Change in Net Position of Governmental Activities	<u>\$ (1,335,151)</u>

City of Davison, Michigan

Proprietary Funds Statement of Net Position June 30, 2016

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,249,547	\$ 568,844	\$ 1,818,391	\$ 495,058
Receivables:				
Receivables from sales to customers on account	295,943	366,939	662,882	-
Other receivables	-	-	-	4,955
Due from other funds (Note 6)	2,460	4,127	6,587	-
Prepaid expenses and other assets	3,556	5,266	8,822	1,496
Total current assets	<u>1,551,506</u>	<u>945,176</u>	<u>2,496,682</u>	<u>501,509</u>
Noncurrent assets:				
Restricted assets (Note 1)	-	385,856	385,856	-
Capital assets (Note 5)	682,133	6,032,422	6,714,555	374,841
Total noncurrent assets	<u>682,133</u>	<u>6,418,278</u>	<u>7,100,411</u>	<u>374,841</u>
Total assets	<u>2,233,639</u>	<u>7,363,454</u>	<u>9,597,093</u>	<u>876,350</u>
Deferred Outflows of Resources (Note 9)	151,512	209,786	361,298	-
Liabilities				
Current liabilities:				
Accounts payable	50,234	4,989	55,223	2,015
Due to other funds (Note 6)	-	397	397	-
Deposits	-	12,534	12,534	-
Accrued liabilities and other	5,275	26,822	32,097	1,049
Compensated absences (Note 8)	4,950	7,512	12,462	-
Current portion of long-term debt (Note 8)	-	400,000	400,000	-
Total current liabilities	<u>60,459</u>	<u>452,254</u>	<u>512,713</u>	<u>3,064</u>
Noncurrent liabilities:				
Net OPEB obligation (Note 11)	801,628	1,227,546	2,029,174	-
Net pension liability (Note 9)	811,057	1,123,002	1,934,059	-
Long-term debt (Note 8)	-	2,969,981	2,969,981	-
Total noncurrent liabilities	<u>1,612,685</u>	<u>5,320,529</u>	<u>6,933,214</u>	<u>-</u>
Total liabilities	<u>1,673,144</u>	<u>5,772,783</u>	<u>7,445,927</u>	<u>3,064</u>
Net Position				
Net investment in capital assets	682,133	2,662,441	3,344,574	374,841
Restricted:				
Capital improvement	705,558	113,667	819,225	-
Revenue bond reserve	-	385,856	385,856	-
Unrestricted (deficit)	<u>(675,684)</u>	<u>(1,361,507)</u>	<u>(2,037,191)</u>	<u>498,445</u>
Total net position	<u>\$ 712,007</u>	<u>\$ 1,800,457</u>	<u>2,512,464</u>	<u>\$ 873,286</u>
Net Position of Business-type Activities			<u>\$ 2,512,464</u>	

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

City of Davison, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	Enterprise Funds			Governmental Activities
				Proprietary Internal Service
	Sewer Fund	Water Fund	Total	Fund
Operating Revenue				
Sale of water	\$ -	\$ 1,425,608	\$ 1,425,608	\$ -
Sewage disposal charges	1,179,272	-	1,179,272	-
Other sales to customers	-	6,850	6,850	-
Miscellaneous	1,550	46,573	48,123	-
Charges to other funds	-	-	-	256,462
Total operating revenue	1,180,822	1,479,031	2,659,853	256,462
Operating Expenses				
Cost of sewage treatment	729,663	-	729,663	-
Water plant operations	-	37,399	37,399	-
Wages and benefits	311,946	478,336	790,282	96,165
Supplies	22,161	31,043	53,204	23,178
Heat, light, and power	10,358	92,906	103,264	-
Equipment maintenance and repair	71,248	66,547	137,795	61,226
Building rent and maintenance	-	4,000	4,000	13,209
Insurance expense	7,081	10,065	17,146	10,486
Professional fees	10,867	16,792	27,659	-
Miscellaneous	26,502	28,999	55,501	-
Depreciation	33,194	262,065	295,259	105,801
Total operating expenses	1,223,020	1,028,152	2,251,172	310,065
Operating (Loss) Income	(42,198)	450,879	408,681	(53,603)
Nonoperating Revenue (Expenses)				
Investment income	1,124	1,203	2,327	3,346
Interest expense	(13,257)	(75,380)	(88,637)	-
Total nonoperating (expenses) revenue	(12,133)	(74,177)	(86,310)	3,346
Change in Net Position	(54,331)	376,702	322,371	(50,257)
Net Position - Beginning of year - As restated (Note 17)	766,338	1,423,755	2,190,093	923,543
Net Position - End of year	<u>\$ 712,007</u>	<u>\$ 1,800,457</u>	<u>\$ 2,512,464</u>	<u>\$ 873,286</u>

City of Davison, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2016

	Enterprise Funds			Governmental Activities
				Proprietary Internal Service Fund
	Sewer Fund	Water Fund	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,182,827	\$ 1,466,752	\$ 2,649,579	\$ 248,810
Receipts from interfund services and reimbursements	(34,096)	(37,812)	(71,908)	8,396
Payments to suppliers	(860,245)	(285,049)	(1,145,294)	(106,694)
Payments to employees	(320,534)	(434,559)	(755,093)	(97,113)
Internal activity - Payments from other funds	-	-	-	(7,479)
Other receipts	-	-	-	7,414
Net cash (used in) provided by operating activities	(32,048)	709,332	677,284	53,334
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(30,605)	(128,569)	(159,174)	(63,764)
Principal and interest paid on capital debt	(13,257)	(523,611)	(536,868)	-
Net cash used in capital and related financing activities	(43,862)	(652,180)	(696,042)	(63,764)
Cash Flows from Investing Activities -				
Interest received on investments	1,124	1,203	2,327	3,346
Net (Decrease) Increase in Cash and Cash Equivalents	(74,786)	58,355	(16,431)	(7,084)
Cash and Cash Equivalents - Beginning of year	1,324,333	896,345	2,220,678	502,142
Cash and Cash Equivalents - End of year	<u>\$ 1,249,547</u>	<u>\$ 954,700</u>	<u>\$ 2,204,247</u>	<u>\$ 495,058</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,249,547	\$ 568,844	\$ 1,818,391	\$ 495,058
Restricted cash	-	385,856	385,856	-
Total cash and cash equivalents	<u>\$ 1,249,547</u>	<u>\$ 954,700</u>	<u>\$ 2,204,247</u>	<u>\$ 495,058</u>

City of Davison, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2016

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (42,198)	\$ 450,879	\$ 408,681	\$ (53,603)
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	33,194	262,065	295,259	105,801
Changes in assets and liabilities:				
Receivables	2,005	(12,279)	(10,274)	7,414
Due from others	(34,093)	(37,810)	(71,903)	744
Prepaid and other assets	(547)	2,189	1,642	(559)
Accounts payable	(43,031)	513	(42,518)	1,964
Due to others	-	(2)	(2)	(7,479)
Accrued and other liabilities	52,622	43,777	96,399	(948)
Net cash (used in) provided by operating activities	<u>\$ (32,048)</u>	<u>\$ 709,332</u>	<u>\$ 677,284</u>	<u>\$ 53,334</u>

City of Davison, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Nonunion Pension Benefit Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 27,922	\$ 27,644
Investments - Mutual funds	1,010,657	-
Total assets	1,038,579	\$ 27,644
Liabilities - Accounts payable	360	\$ 27,644
Net Position Held in Trust for Pension and Other Employee Benefits	\$ 1,038,219	

City of Davison, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Nonunion Pension Benefit Trust Fund Year Ended June 30, 2016

Additions

Investment income:	
Interest and dividends	\$ 25,162
Net decrease in fair value of investments	(14,356)
Investment-related expenses	<u>(10,144)</u>
Net investment income	662
Contributions - Employer	<u>40,550</u>
Total additions	41,212

Deductions

Benefit payments	51,921
Administrative expenses	<u>19,991</u>
Total deductions	<u>71,912</u>

Net Decrease in Net Position Held in Trust (30,700)

Net Position Held in Trust for Pension and Other Employee Benefits -
Beginning of year 1,068,919

Net Position Held in Trust for Pension and Other Employee Benefits -
End of year \$ 1,038,219

City of Davison, Michigan

Component Units Statement of Net Position June 30, 2016

	Downtown Development Authority	Local Development Finance Authority	Total
Assets			
Cash and cash equivalents	\$ 40,496	\$ 121,211	\$ 161,707
Prepaid expenses and other assets	721	400	1,121
Land held for resale (Note 1)	-	293,675	293,675
Total assets	41,217	415,286	456,503
Liabilities			
Accounts payable	1,828	-	1,828
Accrued liabilities and other - Noncurrent liabilities - Due in more than one year - Long-term debt (Note 8)	-	226,581	226,581
Total liabilities	1,828	226,581	228,409
Net Position - Unrestricted	\$ 39,389	\$ 188,705	\$ 228,094

City of Davison, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority: Economic development	\$ 162,215	\$ -	\$ -	\$ -
Local Development Finance Authority: Economic development	17,951	-	-	-
Total component units	\$ 180,166	\$ -	\$ -	\$ -
General revenue:				
Property taxes				
Investment income				
Other miscellaneous income				
Proceeds from sale of capital assets				
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, 2016**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
\$ (162,215)	\$ -	\$ (162,215)
-	(17,951)	(17,951)
(162,215)	(17,951)	(180,166)
63,234	53,954	117,188
20	-	20
43,967	-	43,967
350	-	350
<u>107,571</u>	<u>53,954</u>	<u>161,525</u>
(54,644)	36,003	(18,641)
<u>94,033</u>	<u>152,702</u>	<u>246,735</u>
<u>\$ 39,389</u>	<u>\$ 188,705</u>	<u>\$ 228,094</u>

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

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

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

Blended Component Units

The City of Davison Building Authority's primary purpose is to finance and construct the City's public buildings, and 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.

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

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

Report Presentation

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

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

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

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

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

Fund Accounting

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

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

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major 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 has decided to show these funds as major governmental funds.

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

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

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

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

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

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

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

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

Basis of Accounting

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

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

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

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

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

Specific Balances and Transactions

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

Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value as determined by management.

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

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

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

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

Restricted Assets - The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets and at June 30, 2016 are \$385,856.

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

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal years ended June 30, 2004 to 2016 prior to implementation of GASB Statement No. 34; records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

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

Capital Asset Class	Lives
Buildings	39 years
Improvements other than buildings	10-40 years
Machinery and equipment	5-7 years
Infrastructure	39-40 years
Sewer and water systems	40 years
Vehicles	3-5 years
Office furnishings	5-7 years
Other tools and equipment	3-7 years

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item for \$1,362,631 that qualifies for reporting in this category, which is the deferred outflows of resources related to the defined benefit pension plans. The deferred outflows of resources related to the defined benefit pension plans are reported in the government-wide financial statements and the Water and Sewer Funds. The deferred outflows of resources result from four transactions: contributions to the defined benefit pension plans subsequent to the plan's year end through the City's fiscal year end, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, changes in actuarial assumptions, and the variance between the plan's expected and actual experience.

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

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item for \$117,375, which arises under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenue related to the noncancelable lease receivable as a deferred inflow of resources and it is recognized as an inflow of resources in the period that the amount becomes available. The City has another item for \$6,228 that qualifies for reporting in this category. Accordingly, the tax revenue is received in advance of the period that it relates to. The governmental funds and the government-wide statements 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

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

Fund Balance Flow Assumption

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

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

Fund Balance Policies

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

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

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

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

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

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

Property Tax Revenue

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

The City's 2015 tax is levied and collectible on July 1, 2015 and is recognized as revenue in the year ended June 30, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

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

The 2015 taxable valuation of the City totaled \$102.4 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 12.7837 mills for operating and 1.35 for repayment of debt. This resulted in \$1.233 million for operating and \$131 thousand for debt retirement.

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

The captured taxable values in excess of the initial taxable values for June 30, 2016 by district are as follows:

District 1	\$ 1,787,724
District 2	417,109

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 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, 2016 is \$2,535,199.

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.

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

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.

The duration of the Brownfield Plan shall be 30 years. As of June 30, 2016, there has been no activity for the BRA.

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

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

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

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

Other Postemployment Benefit Costs - The City offers retiree healthcare benefits to retirees. The City computes the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General Fund and the Water and Sewer Funds primarily are used to liquidate this obligation.

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

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

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 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, 2015	\$ (607,019)
Current year permit revenue	9,139
Related expenses - Direct costs	<u>35,326</u>
Current year shortfall	<u>(26,187)</u>
Cumulative shortfall at June 30, 2016	<u>\$ (633,206)</u>

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 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.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

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.

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 two 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 \$4,051,446 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The DDA and LDFA do not have any uninsured amounts.

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Rating Organization
Fiduciary Funds			
Mutual funds - Bond funds	\$ 139,067	BBB	S&P
Mutual funds - Bond funds	54,495	B	S&P
Mutual funds - Bond funds	163,972	A	S&P

Note 4 - Fair Value Measurement

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

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

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 4 - Fair Value Measurement (Continued)

The City has the following recurring fair value measurements as of June 30, 2016:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Mutual funds - Bonds	\$ 357,534	\$ 357,534	\$ -	\$ -
Mutual funds - Equity	462,597	462,597	-	-
Mutual funds - International	190,526	190,526	-	-
Total investments by fair value level	\$ 1,010,657	\$ 1,010,657	\$ -	\$ -

Debt and equity securities classified in Level I are valued using prices quoted in active markets for those securities.

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2015	Reclassifications	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 1,470,882	\$ -	\$ -	\$ -	\$ 1,470,882
Construction in progress	2,348	(2,348)	13,623	-	13,623
Subtotal	1,473,230	(2,348)	13,623	-	1,484,505
Capital assets being depreciated:					
Infrastructure	4,582,689	2,348	172,933	-	4,757,970
Buildings	1,277,029	-	-	-	1,277,029
Machinery and equipment	1,996,276	-	63,765	(133,149)	1,926,892
Improvements other than buildings	654,888	-	68,720	-	723,608
Subtotal	8,510,882	2,348	305,418	(133,149)	8,685,499
Accumulated depreciation:					
Infrastructure	1,085,800	-	214,645	-	1,300,445
Buildings	883,723	-	16,065	-	899,788
Machinery and equipment	1,566,776	-	109,050	(133,149)	1,542,677
Improvements other than buildings	593,174	-	8,548	-	601,722
Subtotal	4,129,473	-	348,308	(133,149)	4,344,632
Net capital assets being depreciated	4,381,409	2,348	(42,890)	-	4,340,867
Net capital assets	\$ 5,854,639	\$ -	\$ (29,267)	\$ -	\$ 5,825,372

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance <u>July 1, 2015</u>	<u>Reclassifications</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 1,000	\$ -	\$ -	\$ -	\$ 1,000
Construction in progress	19,698	(5,930)	16,148	-	29,916
Subtotal	20,698	(5,930)	16,148	-	30,916
Capital assets being depreciated:					
Systems	12,569,905	5,930	143,026	-	12,718,861
Buildings	139,395	-	-	-	139,395
Machinery and equipment	185,804	-	-	-	185,804
Subtotal	12,895,104	5,930	143,026	-	13,044,060
Accumulated depreciation:					
Systems	5,823,218	-	289,504	-	6,112,722
Buildings	67,385	-	3,429	-	70,814
Machinery and equipment	174,559	-	2,326	-	176,885
Subtotal	6,065,162	-	295,259	-	6,360,421
Net capital assets being depreciated	6,829,942	5,930	(152,233)	-	6,683,639
Net capital assets	<u>\$ 6,850,640</u>	<u>\$ -</u>	<u>\$ (136,085)</u>	<u>\$ -</u>	<u>\$ 6,714,555</u>

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

Governmental activities:	
General government	\$ 117,733
Public safety	3,248
Public works	204,329
Recreation and culture	22,998
Total governmental activities	<u>\$ 348,308</u>
Business-type activities:	
Sewer	\$ 33,194
Water	262,065
Total business-type activities	<u>\$ 295,259</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 5 - Capital Assets (Continued)

Assets for the component unit totaled \$24,742 for the year ended June 30, 2016. All assets were fully depreciated.

Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Davison City Hall HVAC	\$ 13,623	\$ 114,270
Lapeer Street Pump Station Replacement	<u>29,916</u>	<u>205,340</u>
Total	<u>\$ 43,539</u>	<u>\$ 319,610</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Water Fund	\$ 397
Sewer Fund	General Fund	2,063
Water Fund	General Fund	<u>4,127</u>
	Total	<u>\$ 6,587</u>

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

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 48,500
Major Street Fund	Local Street Fund	33,450

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

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

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, 2016, the lease is in the second year of a five-year renewal option. The City also entered into a month-to-month lease with the District Court for office space. The rents will be received as detailed below:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2017	\$ 31,300
2018	31,300
2019	31,300
2020	23,475

Note 8 - Long-term Debt

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

	<u>Interest Rate Ranges</u>	<u>Final Payment Due</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
2007 General Obligation Capital Improvement Bonds	1.625%	10/1/2028	\$ 1,221,563	\$ -	\$ (80,000)	\$ 1,141,563	\$ 80,000
Accumulated compensated absences			<u>75,427</u>	<u>89,328</u>	<u>(86,884)</u>	<u>77,871</u>	<u>77,871</u>
Total bonds payable			<u>\$ 1,296,990</u>	<u>\$ 89,328</u>	<u>\$ (166,884)</u>	<u>\$ 1,219,434</u>	<u>\$ 157,871</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Long-term Debt (Continued)

	Interest Rate Ranges	Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
2003A Water Supply and Sewage Disposal System Revenue Refunding Bonds	3.95%	9/2016	\$ 65,000	\$ -	\$ (65,000)	\$ -	\$ -
2003 Water Capital Improvement Bonds	1.2%- 4.45%	10/1/2018	195,000	-	(45,000)	150,000	50,000
Drinking Water Revolving Loan Fund Debt	2.5%	10/1/2024	3,224,981	-	(300,000)	2,924,981	310,000
2013 Water Capital Improvement Bonds	2.0%	10/01/2023	330,000	-	(35,000)	295,000	40,000
Total bonds payable			3,814,981	-	(445,000)	3,369,981	400,000
Accumulated compensated absences			8,239	14,510	(10,287)	12,462	12,462
Total business-type activities			<u>\$ 3,823,220</u>	<u>\$ 14,510</u>	<u>\$ (455,287)</u>	<u>\$ 3,382,443</u>	<u>\$ 412,462</u>

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit Activities							
Land installment purchase - Rising Street	4.88%	10/1/2019	\$ 130,186	\$ -	\$ (1,792)	\$ 128,394	\$ -
Land installment purchase - South State Street	4.65%	2/1/2021	99,177	-	(990)	98,187	-
Total loans payable			<u>\$ 229,363</u>	<u>\$ -</u>	<u>\$ (2,782)</u>	<u>\$ 226,581</u>	<u>\$ -</u>

Years Ending June 30	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 80,000	\$ 17,900	\$ 97,900	\$ 400,000	\$ 80,213	\$ 480,213	\$ -	\$ 5,771	\$ 5,771
2018	80,000	16,600	96,600	405,000	69,450	474,450	-	4,103	4,103
2019	85,000	15,260	100,260	415,000	58,450	473,450	-	2,354	2,354
2020	85,000	13,879	98,879	370,000	48,350	418,350	-	755	755
2021	85,000	12,497	97,497	380,000	39,187	419,187	-	74	74
2022-2026	445,000	41,118	486,118	1,399,981	62,924	1,462,905	226,581	-	226,581
2027-2029	281,563	6,807	288,370	-	-	-	-	-	-
Total	<u>\$ 1,141,563</u>	<u>\$ 124,061</u>	<u>\$ 1,265,624</u>	<u>\$ 3,369,981</u>	<u>\$ 358,574</u>	<u>\$ 3,728,555</u>	<u>\$ 226,581</u>	<u>\$ 13,057</u>	<u>\$ 239,638</u>

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

Note 9 - Defined Benefit Pension Plan - Union and Supervisors

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

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

Police Patrol

All full-time police patrol and dispatcher employees, who are members of a class of employees covered by a collective bargaining agreement between the City of Davison 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, 2015, the most recent valuation, there were seven active plan members, six retirees and beneficiaries receiving benefits, and one terminated plan member not yet receiving benefits.

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

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

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

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

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, 2015, the most recent valuation, there were four active plan members, three retirees and beneficiaries receiving benefits, and two terminated plan members not yet receiving benefits.

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

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

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

Police Dispatchers/Secretaries

All full-time police department dispatchers/secretaries were eligible to participate in the MERS police dispatchers/secretaries pension plan effective immediately following their hire-in date. The plan is closed to new employees. As of December 31, 2015, 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.

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, 2015, the most recent valuation, there were six active plan members, six retirees and beneficiaries receiving benefits, and no terminated plan members not yet receiving benefits. There are two divisions under the Public Works Pension Plan, one closed as of July 1, 2012, and one that includes new employees hired subsequent to July 1, 2012.

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

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

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

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

Employees Covered by Benefit Terms - At the June 30, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	17
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>17</u>
Total employees covered by MERS	<u><u>37</u></u>

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

The terms of the plans require that the City shall 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 1.95 percent to 38.36 percent of covered payroll for the MERS plans. The employee contributions ranged from 2 percent to 8 percent of covered payroll for the MERS plans.

Net Pension Liability

The net pension liability reported at June 30, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of December 31, 2015.

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

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

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 10,852,028	\$ 5,935,907	\$ 4,916,121
Service cost	156,616	-	156,616
Interest	875,272	-	875,272
Differences between expected and actual experience	105,084		105,084
Changes in assumptions	521,190		521,190
Contributions - Employer	-	390,166	(390,166)
Contributions - Employee	-	44,013	(44,013)
Net investment income	-	(85,985)	85,985
Benefit payments, including refunds	(641,953)	(641,953)	-
Administrative expenses	-	(12,814)	12,814
Net changes	<u>1,016,209</u>	<u>(306,573)</u>	<u>1,322,782</u>
Balance at December 31, 2015	<u>\$ 11,868,237</u>	<u>\$ 5,629,334</u>	<u>\$ 6,238,903</u>

Assumption Changes - For the December 31, 2015 actuarial valuation, there were assumption changes that resulted in an increase in the calculated total pension liability. The assumptions changed during the year related to the investment rate of return, discount rate, and mortality tables. See below for the assumptions used.

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

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

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

For the year ended June 30, 2016, the City recognized pension expense of \$811,071. At June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 78,811
Changes in assumptions	390,893
Net difference between projected and actual earnings on pension plan investments	516,591
Employer contributions to the plan subsequent to the measurement date	<u>179,185</u>
Total	<u>\$ 1,165,480</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the \$179,185 employer contributions to the plan made subsequent to the measurement date which will impact the net pension liability in fiscal year 2017, rather than pension expense.

Years Ending June 30	Amount
2017	\$ 290,992
2018	290,992
2019	290,992
2020	113,319

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

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

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58.00 %	5.00 %
Global fixed income	20.00 %	2.20 %
Real assets	12.00 %	4.20 %
Diversifying strategies	10.00 %	6.60 %

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

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability of the City	\$ 7,799,730	\$ 6,238,903	\$ 4,951,177

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of 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 report by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 10 - Defined Benefit Pension Plan - Nonunion

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

Employees Covered by Benefit Terms - At June 30, 2016, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	3
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	3
	<hr/>
Total employees covered by the plan	<u>9</u>

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

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

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the City 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, 2016, the annual required contribution was \$40,506.

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The nonunion pension plan's policy in regard to the allocation of invested assets is established and may be amended by the City Council by a majority vote of its members. It is the policy of the City Council to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The nonunion 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 Council's adopted asset allocation policy as of December 15, 1998 and is still effective at June 30, 2016:

Asset Class	Target Allocation
International equity (large cap)	15 %
Taxable bond - Investment grade	25 %
US aggregate bonds	10 %
US high yield bonds	5 %
Large cap stock	23 %
REITs	3 %
Mid-cap stock	10 %
Commodities	5 %
Emerging markets equity	4 %

Rate of Return - For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.9 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

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

Net Pension Liability

Total pension liability	\$ 1,368,755
Plan fiduciary net position	<u>(1,038,219)</u>
City's net pension liability	<u>\$ 330,536</u>
Plan fiduciary net position as a percentage of the total pension liability	75.9 %

The City has chosen to use June 30, 2016 as its measurement date for the net pension liability. The June 30, 2016 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2016. The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at June 30, 2015	\$ 1,305,779	\$ 1,068,919	\$ 236,860
Interest	69,337	-	69,337
Differences between expected and actual experience	45,560	-	45,560
Contributions - Employer	-	40,550	(40,550)
Net investment income	-	19,765	(19,765)
Benefit payments, including refunds	(51,921)	(51,921)	-
Administrative expenses	-	(39,094)	39,094
Net changes	<u>62,976</u>	<u>(30,700)</u>	<u>93,676</u>
Balance at December 31, 2015	<u>\$ 1,368,755</u>	<u>\$ 1,038,219</u>	<u>\$ 330,536</u>

Assumption Changes - For the June 30, 2016 actuarial valuation, there was an assumption change that resulted in an increase in the calculated total pension liability. The assumption changed during the year related to the mortality tables used. See below for the assumptions used.

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

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

For the year ended June 30, 2016, the City recognized pension expense of \$83,004. At June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 52,966
Changes in assumptions	82,881
Net difference between projected and actual earnings on pension plan investments	<u>61,304</u>
Total	<u>\$ 197,151</u>

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

Years Ending June 30	Amount
2017	\$ 30,863
2018	30,863
2019	30,863
2020	20,169
2021	12,864
2022-2026	64,318
Thereafter	7,211

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	5.31 % Gross of pension plan investment expense, including inflation
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Mortality rates were based on the 2016 PPA IRS Small Plan Mortality Table.

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

Discount Rate - The discount rate used to measure the total pension liability was 5.31 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

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, 2016 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
International equity (large cap)	5.5 %
Taxable bond - Investment grade	2.0 %
US aggregate bonds	1.5 %
US high yield bonds	4.5 %
Large cap stock	4.8 %
REITs	3.8 %
Mid-cap stock	5.0 %
Commodities	0.8 %
Emerging markets equity	7.8 %

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 5.31 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 (4.31 percent) or 1 percentage point higher (6.31 percent) than the current rate:

	1% Decrease (4.31%)	Current Discount Rate (5.31%)	1% Increase (6.31%)
Net pension liability of the City	\$ 510,743	\$ 330,536	\$ 182,464

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

Note 11 - Other Postemployment Benefits

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

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

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

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress - The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period not to exceed 24 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual required contribution (recommended)	\$ 1,551,921
Interest on the prior year's net OPEB obligation	197,451
Less adjustment to the annual required contribution	<u>(268,704)</u>
Annual OPEB cost	1,480,668
Amounts contributed:	
Payments of current premiums	(269,196)
Additional contributions	<u>(55,244)</u>
Increase in net OPEB obligation	1,156,228
OPEB obligation - Beginning of year - As restated (Note 17)	<u>4,936,283</u>
OPEB obligation - End of year	<u>\$ 6,092,511</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Actuarial Valuation Date/ Alternative Measurement Method Date	Annual Required Contribution	Annual OPEB Costs	Employer Contributions		Net OPEB Obligation
				Percentage of ARC Contributed	Percentage OPEB Costs Contributed	
6/30/14	6/30/14	\$ 922,752	\$ 874,976	27.1 %	28.6 %	\$ 2,873,949
6/30/15	6/30/15	1,629,984	1,535,154	18.7	19.9	4,936,283*
6/30/16	6/30/16	1,551,921	1,480,668	21.0	21.9	6,092,511

*As restated, see Note 17 for additional information.

The funding progress of the plan is as follows:

Actuarial Valuation Date/ Alternative Measurement Method Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
6/30/14	\$ 335,720	\$ 14,435,461	\$ 14,099,741	2.3 %
6/30/15	370,272	13,558,648	13,188,376	2.7
6/30/16*	425,475	19,654,305	19,228,830	2.2

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

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

Note 11 - Other Postemployment Benefits (Continued)

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

The following simplifying assumptions were made:

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

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

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

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

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

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

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016 was 24 years.

Note 12 - Defined Contribution Pension Plan

Effective for all union office employees and the city manager as of June 30, 2010, the City provides defined contribution pension benefits in the City of Davison Pension Plan administered by Alerus Investment Advisors. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city manager is eligible to participate from the date of employment. Union office employees are eligible to participate after working 1,000 hours. As established by employee contracts, the City contributes 6 (office employees) or 10 (city manager) percent of employees' gross earnings, based on the employee's contract.

The City's total payroll during the current year for the union office employees and the city manager in the plan was \$195,697. The current year contribution was calculated based on covered payroll of \$195,697, resulting in an employer contribution of \$12,741.

Note 13 - Deferred Compensation Plan

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

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

Note 14 - Risk Management

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

Note 15 - Joint Ventures

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

During the year ended June 30, 2016, 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 Authority headquarters.

2. In January 1972, the City of Davison, Michigan entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority (the "Fire Authority"). The purpose of the Fire Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Fire Authority is governed by a seven-member board appointed by the governing bodies of the City and townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary. The City's equity interest is accounted for in the statement of net position as equity investment in joint venture. The City's equity interest of \$815,521 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2016, the City was billed \$138,313 by the Fire Authority. At year end, the City owed \$27,299 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 Fire Authority headquarters.

Note 15 - Joint Ventures (Continued)

3. In July 2007, the City of Davison 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, Township, and Davison Community Schools.

During the year ended June 30, 2016, the City's contribution to Davison Community Enrichment and Recreation was \$45,000.

Note 16 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

City of Davison, Michigan

Notes to Financial Statements June 30, 2016

Note 17 - Prior Period Adjustments

The financial statements for the year ended June 30, 2015 have been restated in order to properly reflect the net OPEB obligation. As a result of correcting the error, beginning of the year net position for 2015 has been restated as noted below.

The effect of the restatement was to decrease the change in net position for 2015 by \$992,267 and \$445,801 for governmental activities and business-type activities, respectively. The Sewer Fund Combined and Water Fund Combined change in net position would have decreased \$186,949 and \$258,852, respectively.

The effect of this change is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Sewer Fund Combined</u>	<u>Water Fund Combined</u>
Net position - June 30, 2015 - As previously reported	\$ 3,240,220	\$ 2,635,894	\$ 953,287	\$ 1,682,607
Prior period adjustment	<u>(992,267)</u>	<u>(445,801)</u>	<u>(186,949)</u>	<u>(258,852)</u>
Net position - June 30, 2015 - As restated	<u>\$ 2,247,953</u>	<u>\$ 2,190,093</u>	<u>\$ 766,338</u>	<u>\$ 1,423,755</u>

Note 18 - Change in Accounting

During the year, the City adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the notes to the financial statements now include enhanced disclosures about fair value measurement, the level of fair value hierarchy, and valuation techniques.

Required Supplemental Information

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,317,750	\$ 1,301,300	\$ 1,297,574	\$ (3,726)
Licenses and permits	9,700	11,200	10,979	(221)
Federal grants	-	2,500	2,500	-
State-shared revenue and grants	568,650	644,270	645,367	1,097
Charges for services	32,425	25,075	24,025	(1,050)
Fines and forfeitures	21,000	21,000	19,826	(1,174)
Investment income	2,500	8,000	3,630	(4,370)
Rental income	75,800	76,300	76,794	494
Other revenue	201,025	223,325	226,436	3,111
Total revenue	2,228,850	2,312,970	2,307,131	(5,839)
Expenditures - Current				
General government:				
Executive expenses	20,000	23,050	21,314	1,736
CEO (Manager, supervisor, mayor)	125,950	130,725	127,444	3,281
Planning commission	750	-	-	-
Treasurer	79,025	81,725	79,386	2,339
Assessing	31,100	31,850	31,346	504
Board of Appeals	1,300	1,300	-	1,300
Clerk	478,950	520,025	500,139	19,886
Elections	9,100	4,000	3,043	957
Hall and grounds	78,600	117,600	99,364	18,236
Less reimbursement from:				
Local streets	(8,000)	(8,000)	(8,000)	-
Major streets	(23,500)	(23,500)	(23,500)	-
Water	(194,000)	(194,000)	(194,000)	-
Sewer	(194,000)	(194,000)	(194,000)	-
Equipment	(43,100)	(43,100)	(43,100)	-
Total general government	362,175	447,675	399,436	48,239
Public safety:				
Police protection	1,043,550	1,027,950	993,464	34,486
Fire protection	136,500	145,000	137,438	7,562
Building and code enforcement	37,350	38,050	35,326	2,724
Total public safety	1,217,400	1,211,000	1,166,228	44,772

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (continued)				
Public works:				
Public works	\$ 1,250	\$ -	\$ -	\$ -
Public improvements	412,800	431,850	399,173	32,677
Off-street parking	5,800	4,250	3,101	1,149
Total public works	419,850	436,100	402,274	33,826
Community and economic development	7,250	10,025	8,364	1,661
Recreation and culture:				
Library	42,050	42,050	40,539	1,511
Parks and recreation	147,575	215,720	204,146	11,574
Senior citizens	4,100	4,100	4,058	42
Community development	28,450	-	-	-
Total recreation and culture	222,175	261,870	248,743	13,127
Total expenditures	2,228,850	2,366,670	2,225,045	141,625
Excess of Revenue (Under) Over Expenditures	-	(53,700)	82,086	135,786
Other Financing Uses -				
Transfers out	-	(48,500)	(48,500)	-
Net Change in Fund Balance	-	(102,200)	33,586	135,786
Fund Balance - Beginning of year	1,435,871	1,435,871	1,435,871	-
Fund Balance - End of year	\$ 1,435,871	\$ 1,333,671	\$ 1,469,457	\$ 135,786

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 329,800	\$ 347,050	\$ 308,905	\$ (38,145)
Investment income	75	75	95	20
Other revenue	-	9,800	9,813	13
Total revenue	329,875	356,925	318,813	(38,112)
Expenditures - Current -				
Highway and streets	288,600	392,900	328,760	64,140
Excess of Revenue Over (Under)				
Expenditures	41,275	(35,975)	(9,947)	26,028
Other Financing Sources (Uses)				
Transfers in	7,825	69,425	48,500	(20,925)
Transfers out	(33,450)	(33,450)	(33,450)	-
Net Change in Fund Balance	15,650	-	5,103	5,103
Fund Balance - Beginning of year	232,747	232,747	232,747	-
Fund Balance - End of year	\$ 248,397	\$ 232,747	\$ 237,850	\$ 5,103

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 136,500	\$ 101,000	\$ 106,684	\$ 5,684
Investment income	100	100	100	-
Total revenue	136,600	101,100	106,784	5,684
Expenditures - Current -				
Highway and streets	186,875	138,375	82,049	56,326
Excess of Revenue (Under) Over Expenditures	(50,275)	(37,275)	24,735	62,010
Other Financing Sources -				
Transfers in	56,275	57,275	33,450	(23,825)
Net Change in Fund Balance	6,000	20,000	58,185	38,185
Fund Balance - Beginning of year	272,389	272,389	272,389	-
Fund Balance - End of year	<u>\$ 278,389</u>	<u>\$ 292,389</u>	<u>\$ 330,574</u>	<u>\$ 38,185</u>

City of Davison, Michigan

Required Supplemental Information Schedule of Changes in the City Net Pension Liability and Related Ratios - Nonunion Pension Plan Year Ended June 30, 2016

	2016	2015
Total Pension Liability		
Service cost	\$ -	\$ -
Interest	69,337	70,505
Changes in benefit terms	-	-
Differences between expected and actual experience	45,561	13,451
Changes in assumptions	-	98,668
Benefit payments, including refunds	(51,921)	(51,921)
Net Change in Total Pension Liability	62,977	130,703
Total Pension Liability - Beginning of year	1,305,778	1,175,075
Total Pension Liability - End of year	\$ 1,368,755	\$ 1,305,778
Plan Fiduciary Net Position		
Contributions - Employer	\$ 40,550	\$ 22,550
Contributions - Member	-	-
Net investment income	19,765	11,337
Administrative expenses	(39,093)	(15,846)
Benefit payments, including refunds	(51,921)	(51,921)
Other	-	-
Net Change in Plan Fiduciary Net Position	(30,699)	(33,880)
Plan Fiduciary Net Position - Beginning of year	1,068,918	1,102,798
Plan Fiduciary Net Position - End of year	\$ 1,038,219	\$ 1,068,918
City's Net Pension Liability - Ending	\$ 330,536	\$ 236,860
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.85 %	81.86 %
Covered Employee Payroll	\$ -	\$ -
City's Net Pension Liability as a Percentage of Covered Employee Payroll	- %	- %

City of Davison, Michigan

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

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

City of Davison, Michigan

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

	2016	2015
Total Pension Liability		
Service cost	\$ 156,616	\$ 156,189
Interest	875,272	842,204
Changes in benefit terms	-	-
Differences between expected and actual experience	105,084	-
Changes in assumptions	521,190	-
Benefit payments, including refunds	(641,953)	(553,619)
Net Change in Total Pension Liability	1,016,209	444,774
Total Pension Liability - Beginning of year	10,852,028	10,407,254
Total Pension Liability - End of year	\$ 11,868,237	\$ 10,852,028
Plan Fiduciary Net Position		
Contributions - Employer	\$ 390,166	\$ 339,648
Contributions - Member	44,013	48,741
Net investment income	(85,985)	361,710
Administrative expenses	(12,814)	(13,261)
Benefit payments, including refunds	(641,953)	(553,619)
Other	-	-
Net Change in Plan Fiduciary Net Position	(306,573)	183,219
Plan Fiduciary Net Position - Beginning of year	5,935,907	5,752,688
Plan Fiduciary Net Position - End of year	\$ 5,629,334	\$ 5,935,907
City's Net Pension Liability - Ending	\$ 6,238,903	\$ 4,916,121
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	47.43 %	54.70 %
Covered Employee Payroll	\$ 910,098	\$ 946,636
City's Net Pension Liability as a Percentage of Covered Employee Payroll	685.5 %	519.3 %

City of Davison, Michigan

Required Supplemental Information (Continued) Schedule of City Contributions - Union Pension Plan Last Ten Fiscal Years

Notes to Schedule of City Contributions (Continued)

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

City of Davison, Michigan

Required Supplemental Information OPEB System Schedule Year Ended June 30, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual OPEB Costs	Percentage of OPEB Costs Contributed
6/30/16	\$ 425,475	\$ 19,654,305	\$ 19,228,830	2.2	\$ 1,480,668	21.9
6/30/15	370,272	13,558,648	13,188,376	2.7	1,535,154	19.9
6/30/14	335,720	14,435,461	14,099,741	2.3	874,976	28.6

City of Davison, Michigan

Note to Required Supplemental Information Year Ended June 30, 2016

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

Other Supplemental Information

City of Davison, Michigan

Other Supplemental Information Nonmajor Governmental Funds Fund Descriptions

Special Revenue Fund

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

Debt Service Fund

The Inflow and Infiltration Debt Fund was established to accumulate resources for the payment of the 2007 General Obligation Capital Improvement Bonds.

City of Davison, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Fund	Debt Service Funds	Total Nonmajor Governmental Funds
Assets - Cash and investments	<u>\$ 38,783</u>	<u>\$ 520,930</u>	<u>\$ 559,713</u>
Liabilities - Accounts payable	\$ 18,148	\$ 1,306	\$ 19,454
Deferred Inflows of Resources - Unavailable revenue	-	595	595
Fund Balances - Restricted			
Debt service	-	519,029	519,029
Rubbish collections	20,635	-	20,635
Total fund balances	20,635	519,029	539,664
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 38,783</u>	<u>\$ 520,930</u>	<u>\$ 559,713</u>

City of Davison, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2016

	Special Revenue Fund Refuse Collection Fund	Debt Service Fund Inflow and Infiltration Debt Fund	Total Nonmajor Governmental Funds
Revenue			
Property taxes	\$ -	\$ 130,984	\$ 130,984
Charges for services	266,580	-	266,580
Investment income	32	283	315
Total revenue	<u>266,612</u>	<u>131,267</u>	<u>397,879</u>
Expenditures			
Current - Public works	255,075	21,356	276,431
Debt service:			
Principal	-	80,000	80,000
Interest on long-term debt	-	19,200	19,200
Total expenditures	<u>255,075</u>	<u>120,556</u>	<u>375,631</u>
Net Change in Fund Balances	11,537	10,711	22,248
Fund Balances - Beginning of year	<u>9,098</u>	<u>508,318</u>	<u>517,416</u>
Fund Balances - End of year	<u><u>\$ 20,635</u></u>	<u><u>\$ 519,029</u></u>	<u><u>\$ 539,664</u></u>