

City of Davison, Michigan

**Financial Report
with Supplemental Information
June 30, 2015**

City of Davison, Michigan

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City of Davison, Michigan

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Independent Auditor's Report

To the City Council
City of Davison, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison, Michigan (the "City") as of and for the year ended June 30, 2015, 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, 2015 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 discussed in Note 16 to the basic financial statements, in 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, governments providing defined benefit pensions must recognize their unfunded pension benefit obligation as a 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, the major fund budgetary comparison schedules, the pension system schedules of changes in the city net pension liability and related ratios, investment returns and city contributions, and the OPEB schedules of funding progress and employer contributions, 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 4, 2015

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, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position is \$5.9 million.
- The City's overall unrestricted net position is a deficit of \$4.1 million.
- General Fund revenue exceeds expenditures by \$148 thousand, leaving the General Fund with a fund balance of \$1,435,871.

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 two years:

	Governmental Activities				Percent Change
	2013	2014	2015	Change	
Assets					
Other assets	\$ 4,322,578	\$ 4,051,627	\$ 4,063,738	\$ 12,111	0%
Capital assets	<u>4,903,297</u>	<u>5,967,400</u>	<u>5,854,639</u>	<u>(112,761)</u>	-2%
Total assets	9,225,875	10,019,027	9,918,377	(100,650)	-1%
Deferred Outflows of Resources*	-	-	289,242	289,242	
Liabilities					
Current liabilities	327,614	337,604	331,740	(5,864)	-2%
Long-term liabilities	<u>2,990,162</u>	<u>3,313,489</u>	<u>6,635,659</u>	<u>3,322,170</u>	100%
Total liabilities	<u>3,317,776</u>	<u>3,651,093</u>	<u>6,967,399</u>	<u>3,316,306</u>	91%
Net Position					
Investment in capital assets	3,521,734	4,665,837	4,633,076	(32,761)	-1%
Restricted	1,130,992	908,646	1,022,552	113,906	13%
Unrestricted	<u>1,255,373</u>	<u>793,451</u>	<u>(2,415,408)</u>	<u>(3,208,859)</u>	-404%
Total net position	<u>\$ 5,908,099</u>	<u>\$ 6,367,934</u>	<u>\$ 3,240,220</u>	<u>\$ (3,127,714)</u>	-49%

*Deferred outflows of resources due to implementation of GASB Statement No. 68 during the current year (see note 16 for further information).

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities				Percent Change
	2013	2014	2015	Change	
Revenue					
Program revenue:					
Charges for services	\$ 624,878	\$ 698,711	\$ 833,811	\$ 135,100	19%
Operating grants	429,394	365,977	367,417	1,440	0%
Capital grants	-	847,413	-	(847,413)	100%
General revenue:					
Property taxes	1,480,991	1,359,303	1,371,236	11,933	1%
State-shared revenue	461,293	475,123	484,832	9,709	2%
Investment earnings	10,566	13,911	11,150	(2,761)	-20%
Other revenue	131,142	163,051	135,254	(27,797)	-17%
Total revenue	3,138,264	3,923,489	3,203,700	(719,789)	-18%
Program Expenses					
General government	769,077	648,288	680,939	32,651	5%
Public safety	1,411,961	1,524,833	936,992	(587,841)	-39%
Public works	885,659	1,070,941	871,223	(199,718)	-19%
Recreation and cultural	212,181	198,117	189,750	(8,367)	-4%
Interest on long-term debt	22,756	21,475	20,175	(1,300)	-6%
Total expenses	3,301,634	3,463,654	2,699,079	(764,575)	-22%
Change in Net Position	\$ (163,370)	\$ 459,835	\$ 504,621	\$ 44,786	10%

The governmental net position decreased 49 percent from a year ago - decreasing from \$6,367,934 to \$3,240,220. In comparison, last year's net position increased by 8 percent. The City had an increase in long-term liabilities as part of recording pension liabilities for GASB 68 that in turn decreased net position.

Unrestricted net position - the portion of net position that can be used to finance day-to-day operations - decreased by \$3,208,859 for the governmental activities. This represents a decrease of approximately 404 percent. The current level of unrestricted net position for our governmental activities stands at (\$2,415,408).

The City's total governmental revenue decreased by \$719,789 or 18 percent. Decreases were led by a capital grant received only in the prior year.

Expenses decreased by \$764,575 or 22 percent during the year. Decreases were led by the decrease of public works and public safety projects during the current year.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

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

	Business-type Activities				Percent Change
	2013	2014	2015	Change	
Assets					
Other assets	\$ 3,072,524	\$ 2,472,419	\$ 2,818,457	\$ 346,038	14%
Capital assets	<u>6,734,291</u>	<u>7,094,985</u>	<u>6,850,640</u>	<u>(244,345)</u>	-3%
Total assets	9,806,815	9,567,404	9,669,097	101,693	1%
Deferred Outflows of Resources*	-	-	99,589	99,589	
Liabilities					
Current liabilities	543,467	539,666	597,472	57,806	11%
Long-term liabilities	<u>4,810,793</u>	<u>4,597,004</u>	<u>6,535,320</u>	<u>1,938,316</u>	42%
Total liabilities	<u>5,354,260</u>	<u>5,136,670</u>	<u>7,132,792</u>	<u>1,996,122</u>	39%
Net Position					
Investment in capital assets	2,459,310	2,845,004	3,035,659	190,655	7%
Restricted	1,916,309	1,424,720	1,328,376	(96,344)	-7%
Unrestricted	<u>76,936</u>	<u>161,010</u>	<u>(1,728,141)</u>	<u>(1,889,151)</u>	-1173%
Total net position	<u>\$ 4,452,555</u>	<u>\$ 4,430,734</u>	<u>\$ 2,635,894</u>	<u>\$ (1,794,840)</u>	-41%

*Deferred outflows of resources due to implementation of GASB Statement No. 68 during the current year (see note 16 for further information).

	Business-type Activities				Percent Change
	2013	2014	2015	Change	
Operating revenue	\$ 1,916,735	\$ 2,279,206	\$ 2,608,319	\$ 329,113	14%
Operating expenses, other than depreciation	1,859,850	1,892,448	2,845,458	953,010	50%
Depreciation and amortization	<u>286,779</u>	<u>299,629</u>	<u>290,873</u>	<u>(8,756)</u>	-3%
Operating (Loss) Income	(229,894)	87,129	(528,012)	(615,141)	-100%
Interest income	3,676	3,990	1,838	(2,152)	-54%
Interest expense	<u>119,687</u>	<u>112,940</u>	<u>101,199</u>	<u>(11,741)</u>	-10%
Change in Net Position	<u>\$ (345,905)</u>	<u>\$ (21,821)</u>	<u>\$ (627,373)</u>	<u>\$ (605,552)</u>	2775%

The net position of business-type activities decreased 41 percent from a year ago - decreasing from \$4,430,734 to \$2,635,894. In comparison, last year's business-type net position decreased by 1 percent. The City had an increase in long-term liabilities as part of recording pension liabilities for GASB 68.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - decreased by \$1,889,151. This represents a decrease of approximately 1173 percent. The current level of unrestricted net position stands at (\$1,728,141). Restricted net position decreased from last year due to recognition of the net pension liability under GASB 68.

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 detail 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 2015 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 \$1.1 million in 2015. 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 \$232 thousand under budget. That resulted in an overall increase in General Fund fund balance of \$148 thousand, which is higher than the amended budgeted decrease of \$98 thousand.

Capital Asset and Debt Administration

At the end of 2015, the City had invested approximately \$7.7 million in capital assets, net of related debt. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, the GASB has allowed cities to comply with this portion of Statement No. 34 prospectively. 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 4 of this report.

At year end, the City had \$1.2 million in bonds and other debt outstanding for governmental activities and \$3.8 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 7 of this report.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

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

City of Davison, Michigan

Statement of Net Position June 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,741,562	\$ 1,760,584	\$ 4,502,146	\$ 179,393
Receivables	378,577	653,033	1,031,610	-
Internal balances	65,718	(65,718)	-	-
Inventory	34,857	-	34,857	-
Prepaid expenses and other assets	64,399	10,464	74,863	5,956
Restricted assets (Note 1)	-	460,094	460,094	-
Investment in joint ventures (Note 14)	778,625	-	778,625	-
Land held for resale (Note 1)	-	-	-	293,675
Capital assets (Note 4):				
Assets not subject to depreciation	1,473,230	20,698	1,493,928	-
Assets subject to depreciation	4,381,409	6,829,942	11,211,351	-
Total assets	9,918,377	9,669,097	19,587,474	479,024
Deferred Outflows of Resources				
(Notes 8 and 9)	289,242	99,589	388,831	-
Liabilities				
Accounts payable	89,458	97,738	187,196	2,926
Due to other governmental units	5,696	-	5,696	-
Deposits	-	12,959	12,959	-
Accrued liabilities and other	81,159	41,775	122,934	-
Noncurrent liabilities:				
Due within one year (Note 7):				
Compensated absences	75,427	8,239	83,666	-
Current portion of long-term debt	80,000	445,000	525,000	-
Due in more than one year:				
Net OPEB obligation (Note 10)	2,356,724	1,141,491	3,498,215	-
Net pension liability (Notes 8 and 9)	3,137,372	2,015,609	5,152,981	-
Long-term debt (Note 7)	1,141,563	3,369,981	4,511,544	229,363
Total liabilities	6,967,399	7,132,792	14,100,191	232,289
Net Position				
Net investment in capital assets	4,633,076	3,035,659	7,668,735	-
Restricted for:				
Street maintenance and construction	505,136	-	505,136	-
Debt service	508,318	-	508,318	-
Rubbish collections	9,098	-	9,098	-
Capital projects	-	868,282	868,282	-
Revenue bond reserve	-	460,094	460,094	-
Unrestricted	(2,415,408)	(1,728,141)	(4,143,549)	246,735
Total net position	\$ 3,240,220	\$ 2,635,894	\$ 5,876,114	\$ 246,735

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	\$ 680,939	\$ 530,364	\$ -	\$ -
Public safety	936,992	32,350	-	-
Public works	871,223	235,555	366,862	-
Recreation and culture	189,750	35,542	555	-
Interest on long-term debt	20,175	-	-	-
Total governmental activities	2,699,079	833,811	367,417	-
Business-type activities:				
Sewer Fund	1,482,395	1,152,445	-	-
Water Fund	1,755,135	1,455,874	-	-
Total business-type activities	3,237,530	2,608,319	-	-
Total primary government	<u>\$ 5,936,609</u>	<u>\$ 3,442,130</u>	<u>\$ 367,417</u>	<u>\$ -</u>
Component units:				
Downtown Development Authority	\$ 80,673	\$ -	\$ -	\$ 17,706
Local Development Finance Authority	17,863	-	-	-
Total component units	<u>\$ 98,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,706</u>

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 16)

Net Position - End of year

Statement of Activities
Year Ended June 30, 2015

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (150,575)	\$ -	\$ (150,575)	\$ -
(904,642)	-	(904,642)	-
(268,806)	-	(268,806)	-
(153,653)	-	(153,653)	-
(20,175)	-	(20,175)	-
(1,497,851)	-	(1,497,851)	-
-	(329,950)	(329,950)	-
-	(299,261)	(299,261)	-
-	(629,211)	(629,211)	-
(1,497,851)	(629,211)	(2,127,062)	-
-	-	-	(62,967)
-	-	-	(17,863)
-	-	-	(80,830)
1,371,236	-	1,371,236	109,227
484,832	-	484,832	-
11,150	1,838	12,988	83
116,455	-	116,455	-
15,923	-	15,923	14,333
2,876	-	2,876	-
2,002,472	1,838	2,004,310	123,643
504,621	(627,373)	(122,752)	42,813
2,735,599	3,263,267	5,998,866	203,922
\$ 3,240,220	\$ 2,635,894	\$ 5,876,114	\$ 246,735

City of Davison, Michigan

Governmental Funds Balance Sheet June 30, 2015

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Assets					
Cash and investments (Note 3)	\$ 1,264,182	\$ 184,360	\$ 255,354	\$ 535,524	\$ 2,239,420
Receivables:					
Property taxes receivable	7,166	-	-	-	7,166
Accrued interest receivable	2,521	-	-	-	2,521
Other receivables	51,297	-	-	-	51,297
Due from other governmental units	234,128	52,228	18,868	-	305,224
Due from other funds (Note 5)	77,537	279	186	-	78,002
Inventory	34,857	-	-	-	34,857
Prepaid expenses and other assets	63,218	177	67	-	63,462
Total assets	\$ 1,734,906	\$ 237,044	\$ 274,475	\$ 535,524	\$ 2,781,949
Liabilities					
Accounts payable	\$ 68,888	\$ 2,411	\$ -	\$ 18,108	\$ 89,407
Due to other governmental units	5,696	-	-	-	5,696
Due to other funds (Note 5)	5,549	-	-	-	5,549
Accrued liabilities and other	70,227	1,886	2,086	-	74,199
Total liabilities	150,360	4,297	2,086	18,108	174,851
Deferred Inflows of Resources -					
Unavailable revenue (Note 1)	148,675	-	-	-	148,675
Fund Balances					
Nonspendable:					
Inventory	34,857	-	-	-	34,857
Prepays	63,218	177	67	-	63,462
Restricted:					
Street maintenance and construction	-	232,570	272,322	-	504,892
Debt service	-	-	-	508,318	508,318
Rubbish collections	-	-	-	9,098	9,098
Unassigned	1,337,796	-	-	-	1,337,796
Total fund balances	1,435,871	232,747	272,389	517,416	2,458,423
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,734,906	\$ 237,044	\$ 274,475	\$ 535,524	\$ 2,781,949

City of Davison, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2015

Fund Balance Reported in Governmental Funds	\$ 2,458,423
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	5,437,761
Investments in joint ventures are not financial resources and are not reported in the funds	778,625
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	148,675
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,221,563)
Accrued interest is not due and payable in the current period and is not reported in the funds	(4,963)
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	(75,427)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(2,356,724)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability	(3,137,372)
Deferred outflows of resources - pension difference between projected and actual investment earnings as well as contributions made to the plan after the measurement date	289,242
Internal Service Funds are included as part of governmental activities	<u>923,543</u>
Net Position of Governmental Activities	<u>\$ 3,240,220</u>

City of Davison, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2015

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 1,241,100	\$ -	\$ -	\$ 130,136	\$ 1,371,236
Licenses and permits	10,719	-	-	-	10,719
State-shared revenue and grants	575,161	274,242	92,620	-	942,023
Charges for services	87,653	-	-	230,880	318,533
Fines and forfeitures	25,748	-	-	-	25,748
Investment income	9,452	68	89	437	10,046
Other revenue:					
Cable franchise fees	116,455	-	-	-	116,455
Miscellaneous income	86,613	1,136	-	-	87,749
Total revenue	2,152,901	275,446	92,709	361,453	2,882,509
Expenditures					
Current:					
General government	354,133	-	-	-	354,133
Public safety	1,107,917	-	-	-	1,107,917
Public works	372,689	188,279	96,318	244,255	901,541
Recreation and culture	159,504	-	-	-	159,504
Debt service:					
Principal	-	-	-	80,000	80,000
Interest on long-term debt	-	-	-	20,500	20,500
Total expenditures	1,994,243	188,279	96,318	344,755	2,623,595
Excess of Revenue Over (Under) Expenditures	158,658	87,167	(3,609)	16,698	258,914
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	2,876	-	-	-	2,876
Transfers in	-	-	32,475	13,650	46,125
Transfers out	(13,650)	(32,475)	-	-	(46,125)
Total other financing sources (uses)	(10,774)	(32,475)	32,475	13,650	2,876
Net Change in Fund Balances	147,884	54,692	28,866	30,348	261,790
Fund Balances - Beginning of year	1,287,987	178,055	243,523	487,068	2,196,633
Fund Balances - End of year	<u>\$ 1,435,871</u>	<u>\$ 232,747</u>	<u>\$ 272,389</u>	<u>\$ 517,416</u>	<u>\$ 2,458,423</u>

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, 2015

Net Change in Fund Balances - Total governmental funds	\$ 261,790
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	66,352
Depreciation expense	(232,492)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	125,200
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
Decrease 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	27,593
Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(264,798)
Change in investment in joint venture	4,073
Change in accrued interest payable	325
The change in the net pension liability is recorded when incurred in the statement of activities	546,942
Internal Service Funds are included as part of governmental activities	<u>(110,364)</u>
Change in Net Position of Governmental Activities	<u>\$ 504,621</u>

City of Davison, Michigan

Proprietary Funds Statement of Net Position June 30, 2015

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Assets				
Current assets:				
Cash and investments (Note 3)	\$ 1,324,333	\$ 436,251	\$ 1,760,584	\$ 502,142
Receivables:				
Receivables from sales to customers on account	297,948	355,085	653,033	-
Other receivables	-	-	-	12,369
Due from other funds (Note 5)	3,399	2,233	5,632	744
Prepaid expenses and other assets	3,009	7,455	10,464	937
Total current assets	<u>1,628,689</u>	<u>801,024</u>	<u>2,429,713</u>	<u>516,192</u>
Noncurrent assets:				
Restricted assets (Note 1)	-	460,094	460,094	-
Capital assets (Note 4)	684,722	6,165,918	6,850,640	416,878
Total noncurrent assets	<u>684,722</u>	<u>6,626,012</u>	<u>7,310,734</u>	<u>416,878</u>
Total assets	<u>2,313,411</u>	<u>7,427,036</u>	<u>9,740,447</u>	<u>933,070</u>
Deferred Outflows of Resources	41,293	58,296	99,589	-
Liabilities				
Current liabilities:				
Accounts payable	93,262	4,476	97,738	51
Due to other funds (Note 5)	35,035	36,315	71,350	7,479
Deposits	-	12,959	12,959	-
Accrued liabilities and other	6,381	35,394	41,775	1,997
Compensated absences	1,625	6,614	8,239	-
Current portion of long-term debt (Note 7)	-	445,000	445,000	-
Total current liabilities	<u>136,303</u>	<u>540,758</u>	<u>677,061</u>	<u>9,527</u>
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	429,374	712,117	1,141,491	-
Net pension liability (Note 8)	835,740	1,179,869	2,015,609	-
Long-term debt (Note 7)	-	3,369,981	3,369,981	-
Total noncurrent liabilities	<u>1,265,114</u>	<u>5,261,967</u>	<u>6,527,081</u>	<u>-</u>
Total liabilities	<u>1,401,417</u>	<u>5,802,725</u>	<u>7,204,142</u>	<u>9,527</u>
Net Position				
Net investment in capital assets	684,722	2,350,937	3,035,659	416,878
Restricted:				
Capital improvement	752,721	115,561	868,282	-
Revenue bond reserve	-	460,094	460,094	-
Unrestricted (deficit)	(484,156)	(1,243,985)	(1,728,141)	506,665
Total net position	<u>\$ 953,287</u>	<u>\$ 1,682,607</u>	<u>2,635,894</u>	<u>\$ 923,543</u>
Net Position of Business-type Activities			<u>\$ 2,635,894</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, 2015

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Operating Revenue				
Sale of water	\$ -	\$ 1,392,418	\$ 1,392,418	\$ -
Sewage disposal charges	1,151,145	-	1,151,145	-
Other sales to customers	-	4,150	4,150	-
Miscellaneous	1,300	59,306	60,606	-
Charges to other funds	-	-	-	248,608
Total operating revenue	1,152,445	1,455,874	2,608,319	248,608
Operating Expenses				
Cost of sewage treatment	593,996	-	593,996	-
Water plant operations	-	37,324	37,324	-
Wages and benefits	718,346	1,063,007	1,781,353	161,934
Supplies	17,646	36,217	53,863	29,995
Heat, light, and power	1,336	96,920	98,256	-
Equipment maintenance and repair	44,142	77,141	121,283	39,966
Building rent and maintenance	25,065	2,500	27,565	21,792
Insurance expense	7,291	10,412	17,703	11,372
Professional fees	10,117	14,233	24,350	-
Miscellaneous	18,460	71,305	89,765	-
Depreciation and amortization	31,968	258,905	290,873	95,017
Total operating expenses	1,468,367	1,667,964	3,136,331	360,076
Operating Loss	(315,922)	(212,090)	(528,012)	(111,468)
Nonoperating Revenue (Expenses)				
Investment income	828	1,010	1,838	1,104
Interest expense	(14,028)	(87,171)	(101,199)	-
Total nonoperating (expenses) revenue	(13,200)	(86,161)	(99,361)	1,104
Change in Net Position	(329,122)	(298,251)	(627,373)	(110,364)
Net Position - Beginning of year - As restated (Note 16)	1,282,409	1,980,858	3,263,267	1,033,907
Net Position - End of year	\$ 953,287	\$ 1,682,607	\$ 2,635,894	\$ 923,543

City of Davison, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2015

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,134,924	\$ 1,425,664	\$ 2,560,588	\$ 242,831
Receipts from interfund services and reimbursements	(4,534)	(1,887)	(6,421)	5,291
Payments to suppliers	(661,082)	(345,125)	(1,006,207)	(100,679)
Payments to employees	(230,016)	(439,672)	(669,688)	(165,552)
Internal activity - Payments from other funds	-	-	-	(5,559)
Other receipts	-	-	-	(1,812)
Net cash provided by (used in) operating activities	239,292	638,980	878,272	(25,480)
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(21,998)	(24,531)	(46,529)	(148,396)
Principal and interest paid on capital debt	(14,028)	(525,339)	(539,367)	-
Net cash used in capital and related financing activities	(36,026)	(549,870)	(585,896)	(148,396)
Cash Flows from Investing Activities -				
Interest received on investments	828	1,010	1,838	1,104
Net Increase (Decrease) in Cash and Cash Equivalents	204,094	90,120	294,214	(172,772)
Cash and Cash Equivalents - Beginning of year	1,120,239	806,225	1,926,464	674,914
Cash and Cash Equivalents - End of year	<u>\$ 1,324,333</u>	<u>\$ 896,345</u>	<u>\$ 2,220,678</u>	<u>\$ 502,142</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,324,333	\$ 436,251	\$ 1,760,584	\$ 502,142
Restricted cash	-	460,094	460,094	-
Total cash and cash equivalents	<u>\$ 1,324,333</u>	<u>\$ 896,345</u>	<u>\$ 2,220,678</u>	<u>\$ 502,142</u>

City of Davison, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2015

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (315,922)	\$ (212,090)	\$ (528,012)	\$ (111,468)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	31,968	258,905	290,873	95,017
Changes in assets and liabilities:				
Receivables	(17,521)	(30,210)	(47,731)	(1,812)
Due from others	(4,537)	(1,889)	(6,426)	(486)
Prepaid and other assets	2,820	(267)	2,553	2,470
Accounts payable	52,998	1,195	54,193	(24)
Due to others	-	-	-	(5,559)
Accrued and other liabilities	489,486	623,336	1,112,822	(3,618)
Net cash provided by (used in) operating activities	<u>\$ 239,292</u>	<u>\$ 638,980</u>	<u>\$ 878,272</u>	<u>\$ (25,480)</u>

City of Davison, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2015

	Nonunion Pension Benefit	
	<u>Trust Fund</u>	<u>Agency Funds</u>
Assets		
Cash and investments	\$ 7,067	\$ 2,896
Investments - Mutual funds	1,062,092	-
Receivables	-	1,834
Total assets	1,069,159	<u>\$ 4,730</u>
Liabilities - Accounts payable	<u>240</u>	<u>\$ 4,730</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 1,068,919</u>	

City of Davison, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position - Nonunion Pension Benefit Trust Fund Year Ended June 30, 2015

Additions

Investment income:	
Interest and dividends	\$ 19,722
Net decrease in fair value of investments	(8,384)
Investment-related expenses	<u>(10,409)</u>
Net investment income	929
Contributions - Employer	<u>22,550</u>
Total additions	23,479

Deductions

Benefit payments	51,921
Administrative expenses	<u>5,436</u>
Total deductions	<u>57,357</u>

Net Decrease in Net Position Held in Trust (33,878)

Net Position Held in Trust for Pension and Other Employee Benefits -
Beginning of year 1,102,797

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

City of Davison, Michigan

Component Units Statement of Net Position June 30, 2015

	Downtown Development Authority	Local Development Finance Authority	Total
Assets			
Cash and investments	\$ 90,068	\$ 89,325	\$ 179,393
Prepaid expenses and other assets	5,956	-	5,956
Land held for resale (Note 1)	-	293,675	293,675
Total assets	96,024	383,000	479,024
Liabilities			
Accounts payable	1,991	935	2,926
Accrued liabilities and other - Noncurrent liabilities - Due in more than one year - Long-term debt (Note 7)	-	229,363	229,363
Total liabilities	1,991	230,298	232,289
Net Position	\$ 94,033	\$ 152,702	\$ 246,735

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	\$ 80,673	\$ -	\$ -	\$ 17,706
Local Development Finance Authority - Economic Development	17,863	-	-	-
Total component units	<u>\$ 98,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,706</u>
General revenue:				
Property taxes				
Investment income				
Other miscellaneous income				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

**Component Units
Statement of Activities
Year Ended June 30, 2015**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
\$ (62,967)	\$ -	\$ (62,967)
-	(17,863)	(17,863)
(62,967)	(17,863)	(80,830)
61,233	47,994	109,227
35	48	83
14,333	-	14,333
<u>75,601</u>	<u>48,042</u>	<u>123,643</u>
12,634	30,179	42,813
<u>81,399</u>	<u>122,523</u>	<u>203,922</u>
<u>\$ 94,033</u>	<u>\$ 152,702</u>	<u>\$ 246,735</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

The 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 has been reported as if it were a part of this City's operations because:

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

Discretely Presented Component Units

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

Local Development Finance Authority - The Local Development Finance Authority (the "LDFA") was created to aid in the creation and retention of jobs and to promote economic growth in defined areas of the City of Davison. 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.

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

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.

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:

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

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.

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 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.

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

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

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.

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.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are 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."

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

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.

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, 2015 are \$460,094.

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.

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

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 estimated fair market 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 2015 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

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.

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

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 \$388,831 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 two transactions: contributions to the defined benefit pension plans subsequent to the plan's year end through the City's fiscal year end and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

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 \$148,675, 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.

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.

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

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.

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.

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

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 2014 tax is levied and collectible on July 1, 2014 and is recognized as revenue in the year ended June 30, 2015, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2014 taxable valuation of the City totaled \$100.2 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 \$1.215 million for operating and \$130 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, 2015 by district are as follows:

District 1	\$ 1,739,675
District 2	385,678

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).

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

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, 2015 is \$1,888,240.

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

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

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

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

1. The former Independent Oil Company site, a facility located within the boundaries of the Downtown Development Authority, contains one or more underground storage tank(s) and contaminated soils and groundwater requiring Phase II and baseline environmental assessments, due care, and additional response activities prior to being redeveloped as part of the Downtown Revitalization Plan.
2. The former Davison Oil & Gas site, a facility located within the boundaries of the Downtown Development Authority, consists of two contiguous parcels and a portion of a City street that will eventually be closed as part of the redevelopment. The property contains one or more underground storage tank(s) and contaminated soils and groundwater, and requires demolition of dilapidated building(s), Phase II and baseline environmental assessments, due care, and 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, 2015, there has been no activity for the BRA.

Note 1 - 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 revenues of the Water and Sewer Fund and internal service funds are 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, 2014	\$ (587,676)
Current year permit revenue	8,647
Related expenses - Direct costs	<u>27,990</u>
Current year shortfall	<u>(19,343)</u>
Cumulative shortfall at June 30, 2015	<u>\$ (607,019)</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 \$3,806,385 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.

City of Davison, Michigan

Notes to Financial Statements June 30, 2015

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	\$ 63,244	BA2	S&P
Mutual funds - Bond funds	158,668	A	S&P

Note 4 - Capital Assets

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

Governmental Activities	Balance July 1, 2014	Adjustments	Additions	Disposals	Balance June 30, 2015
Capital assets not being depreciated:					
Land	\$ 1,470,882	\$ -	\$ -	\$ -	\$ 1,470,882
Construction in progress	-	-	2,348	-	2,348
Subtotal	1,470,882	-	2,348	-	1,473,230
Capital assets being depreciated:					
Infrastructure	4,534,925	-	47,764	-	4,582,689
Buildings	1,277,029	-	-	-	1,277,029
Machinery and equipment	1,836,936	24,518	164,636	(29,814)	1,996,276
Improvements other than buildings	654,888	-	-	-	654,888
Subtotal	8,303,778	24,518	212,400	(29,814)	8,510,882
Accumulated depreciation:					
Infrastructure	879,903	-	205,897	-	1,085,800
Buildings	867,658	-	16,065	-	883,723
Machinery and equipment	1,470,137	24,518	101,935	(29,814)	1,566,776
Improvements other than buildings	589,562	-	3,612	-	593,174
Subtotal	3,807,260	24,518	327,509	(29,814)	4,129,473
Net capital assets being depreciated	4,496,518	-	(115,109)	-	4,381,409
Net capital assets	\$ 5,967,400	\$ -	\$ (112,761)	\$ -	\$ 5,854,639

City of Davison, Michigan

Notes to Financial Statements June 30, 2015

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	-	19,698	-	19,698
Subtotal	1,000	19,698	-	20,698
Capital assets being depreciated:				
Systems	12,554,706	15,199	-	12,569,905
Buildings	139,395	-	-	139,395
Machinery and equipment	174,172	11,632	-	185,804
Subtotal	12,868,273	26,831	-	12,895,104
Accumulated depreciation:				
Systems	5,536,161	287,057	-	5,823,218
Buildings	63,956	3,429	-	67,385
Machinery and equipment	174,171	388	-	174,559
Subtotal	5,774,288	290,874	-	6,065,162
Net capital assets being depreciated	7,093,985	(264,043)	-	6,829,942
Net capital assets	\$ 7,094,985	\$ (244,345)	\$ -	\$ 6,850,640

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

Governmental activities:

General government	\$ 106,947
Public safety	6,798
Public works	195,702
Recreation and culture	18,062
Total governmental activities	\$ 327,509

Business-type activities:

Sewer	\$ 31,968
Water	258,906
Total business-type activities	\$ 290,874

Assets for the component unit totaled \$31,110 for the year ended June 30, 2015. All assets were fully depreciated.

City of Davison, Michigan

Notes to Financial Statements June 30, 2015

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water Fund	\$ 35,023
	Sewer Fund	35,035
	Internal Service Fund	7,479
	Total General Fund	77,537
Major Streets Fund	General Fund	279
Local Streets Fund	General Fund	186
Internal Service Fund	General Fund	744
Water Fund	General Fund	2,233
Sewer Fund	General Fund	2,107
	Water Fund	1,292
	Total Sewer Fund	3,399
	Total	<u>\$ 84,378</u>

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

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

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Nonmajor governmental funds	\$ 13,650
Major Street Fund	Local Street Fund	32,475

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, 2015

Note 6 - 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, 2015, the lease is in the first year of a five-year renewal option. The City also entered into a month-to-month lease with the District Court for office space. The rents will be received as detailed below:

Fiscal Year Ending	Amount
2016	\$ 31,300
2017	31,300
2018	31,300
2019	31,300
2020	23,475

Note 7 - 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.

	Interest Rate Ranges	Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
2007 General Obligation Capital Improvement Bonds	1.625%	10/1/2028	\$ 1,301,563	\$ -	\$ (80,000)	\$ 1,221,563	\$ 80,000
Accumulated compensated absences			103,020	87,005	(114,598)	75,427	75,427
Total bonds payable			\$ 1,404,583	\$ 87,005	\$ (194,598)	\$ 1,296,990	\$ 155,427

Note 7 - 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	\$ 130,000	\$ -	\$ (65,000)	\$ 65,000	\$ 65,000
2003 Water Capital Improvement Bonds							
	1.2%- 4.45%	10/1/2018	240,000	-	(45,000)	195,000	45,000
Drinking Water Revolving Loan Fund Debt							
	2.5%	10/1/2024	3,514,981	-	(290,000)	3,224,981	300,000
2013 Water Capital Improvement Bonds							
	2.0%	10/01/2023	365,000	-	(35,000)	330,000	35,000
Total bonds payable			4,249,981	-	(435,000)	3,814,981	445,000
Accumulated compensated absences			-	9,504	(1,265)	8,239	8,239
Total business-type activities			<u>\$ 4,249,981</u>	<u>\$ 9,504</u>	<u>\$ (436,265)</u>	<u>\$ 3,823,220</u>	<u>\$ 453,239</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	\$ 131,990	\$ -	\$ (1,804)	\$ 130,186	\$ -
Land installment purchase - South State Street							
	4.65%	2/1/2021	100,192	-	(1,015)	99,177	-
Total loans payable			<u>\$ 232,182</u>	<u>\$ -</u>	<u>\$ (2,819)</u>	<u>\$ 229,363</u>	<u>\$ -</u>

The City has pledged substantially all revenue of the Water Fund to repay the 2003A water and sewer revenue refunding bonds. Proceeds from the bonds provided financing for the construction of the water and sewage disposal system. The bonds are payable solely from the net revenue of the water and sewer system. Remaining principal and interest to be paid on the bonds total \$66,284. During the current year, the system incurred a net operating income, excluding depreciation, of \$237,139 compared to the annual debt requirements of \$539,366.

Years Ending June 30	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 80,000	\$ 19,200	\$ 99,200	\$ 445,000	\$ 91,868	\$ 536,868	\$ -	\$ 7,383	\$ 7,383
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
2021-2025	440,000	48,308	488,308	1,779,981	102,111	1,882,092	229,363	74	229,437
2026-2029	371,563	12,114	383,677	-	-	-	-	-	-
Total	<u>\$ 1,221,563</u>	<u>\$ 143,261</u>	<u>\$ 1,364,824</u>	<u>\$ 3,814,981</u>	<u>\$ 450,442</u>	<u>\$ 4,265,423</u>	<u>\$ 229,363</u>	<u>\$ 20,440</u>	<u>\$ 249,803</u>

Note 7 - Long-term Debt (Continued)

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 8 - Defined Benefit Pension Plan - Union

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.

The MERS plan covers union police officers, department supervisors, police dispatchers and secretaries, and public works employees.

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, 2014, the most recent valuation, there were eight 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 8 - Defined Benefit Pension Plan - Union (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, 2014, the most recent valuation, there were three active plan members, three retirees or 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 are 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, 2014, 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, 2014, the most recent valuation, there were seven active plan members, five 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 as of 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 8 - Defined Benefit Pension Plan - Union (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, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	16
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>18</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 2.08 percent to 32.58 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, 2015 was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of December 31, 2014.

City of Davison, Michigan

Notes to Financial Statements June 30, 2015

Note 8 - Defined Benefit Pension Plan - Union (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 June 30, 2014	\$ 10,407,254	\$ 5,752,688	\$ 4,654,566
Service cost	156,189	-	156,189
Interest	842,204	-	842,204
Contributions - Employer	-	339,648	(339,648)
Contributions - Employee	-	48,741	(48,741)
Net investment income	-	361,710	(361,710)
Benefit payments, including refunds	(553,619)	(553,619)	-
Administrative expenses	-	(13,261)	13,261
Net changes	444,774	183,219	261,555
Balance at June 30, 2015	<u>\$ 10,852,028</u>	<u>\$ 5,935,907</u>	<u>\$ 4,916,121</u>

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

For the year ended June 30, 2015, the City recognized pension expense of \$516,787. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 84,418
Employer contributions to the plan subsequent to the measurement date	158,484
Total	<u>\$ 242,902</u>

Note 8 - Defined Benefit Pension Plan - Union (Continued)

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the \$158,484 employer contributions to the plan made subsequent to the measurement date which will impact the net pension liability in fiscal year 2016, rather than pension expense.

Years Ending June 30	Amount
2016	\$ 21,105
2017	21,105
2018	21,105
2019	21,103

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.50 %	
Salary increases	4.50 %	In the long term, 1 percent, 2 percent, and 3 percent for calendar years 2014, 2015, and 2016, respectively, including inflation
Investment rate of return	8.00 %	Net of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table of a 50 percent male and 50 percent female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

Discount Rate - The discount rate used to measure the total pension liability was 8.25 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.

Note 8 - Defined Benefit Pension Plan - Union (Continued)

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, 2014, the measurement date, for each major asset class are summarized in the following table:

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

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 8.25 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 (7.25 percent) or 1 percentage point higher (9.25 percent) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Net pension liability of the City	\$ 6,296,562	\$ 4,916,121	\$ 3,770,858

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows or resources related to pension and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are 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 9 - 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, 2015, 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	<u>3</u>
Total employees covered by the plan	<u><u>9</u></u>

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

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the 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, 2015, the annual required contribution was \$22,539.

Note 9 - Defined Benefit Pension Plan - Nonunion (Continued)

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The nonunion pension plan's policy in regard to the allocation of invested assets is established and may be amended by the 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, 2015:

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, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.3 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

Total pension liability	\$ 1,305,778
Plan fiduciary net position	<u>(1,068,918)</u>
City's net pension liability	<u>\$ 236,860</u>
Plan fiduciary net position as a percentage of the total pension liability	81.9 %

The City has chosen to use June 30, 2015 as its measurement date for the net pension liability. The June 30, 2015 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

City of Davison, Michigan

Notes to Financial Statements June 30, 2015

Note 9 - Defined Benefit Pension Plan - Nonunion (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at June 30, 2014	\$ 1,175,075	\$ 1,102,798	\$ 72,277
Interest	70,506	-	70,506
Differences between expected and actual experience	13,451	-	13,451
Changes in assumptions	98,668	-	98,668
Contributions - Employer	-	22,550	(22,550)
Net investment income	-	11,337	(11,337)
Benefit payments, including refunds	(51,921)	(51,921)	-
Administrative expenses	-	(15,845)	15,845
Net changes	130,704	(33,879)	164,583
Balance at June 30, 2015	<u>\$ 1,305,779</u>	<u>\$ 1,068,919</u>	<u>\$ 236,860</u>

Assumption Changes - During the year ended June 30, 2015, the investment rate of return for the nonunion plan was changed from 6.00 percent to 5.31 percent resulting in an increase in total pension liability for the plan of \$98,668.

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

For the year ended June 30, 2015, the City recognized pension expense of \$41,204. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 12,375
Changes in assumptions	90,775
Net difference between projected and actual earnings on pension plan investments	42,779
Total	<u>\$ 145,929</u>

Note 9 - Defined Benefit Pension Plan - Nonunion (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. Best estimates of arithmetic real rates of return as of June 30, 2015 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)	4.8 %
Taxable bond - Investment grade	1.0 %
US aggregate bonds	0.5 %
US high yield bonds	2.6 %
Large cap stock	5.2 %
REITs	5.3 %
Mid-cap stock	5.8 %
Commodities	- %
Emerging markets equity	6.8 %

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:

	<u>1% Decrease (4.31%)</u>	<u>Current Discount Rate (5.31%)</u>	<u>1% Increase (6.31%)</u>
Net pension liability of the City	\$ 404,086	\$ 236,860	\$ 97,671

Note 9 - Defined Benefit Pension Plan - Nonunion (Continued)

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

Note 10 - 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.

City of Davison, Michigan

Notes to Financial Statements June 30, 2015

Note 10 - 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 26 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)	\$ 994,173
Interest on the prior year's net OPEB obligation	114,958
Less adjustment to the annual required contribution	<u>(179,815)</u>
Annual OPEB cost	929,316
Amounts contributed:	
Payments of current premiums	(252,485)
Additional contributions	<u>(52,565)</u>
Increase in net OPEB obligation	624,266
OPEB obligation - Beginning of year	<u>2,873,949</u>
OPEB obligation - End of year	<u>\$ 3,498,215</u>

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	Annual Required Contribution	Annual OPEB Costs	Employer Contributions		Net OPEB Obligation
				Percentage of ARC Contributed	Percentage OPEB Costs Contributed	
6/30/13	6/30/13	\$ 761,687	\$ 725,975	34.3 %	36.0 %	\$ 2,249,411
6/30/14	6/30/14	922,752	874,976	27.1	28.6	2,873,949
6/30/15	6/30/15	994,173	929,316	30.7	32.8	3,498,215

Note 10 - Other Postemployment Benefits (Continued)

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)
6/30/13	\$ 199,139	\$ 12,264,411	\$ 12,065,272	1.6 %
6/30/14	335,720	14,435,461	14,099,741	2.3
6/30/15	370,272	15,382,442	15,012,170	2.4

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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 19W9 United States Life Tables for Males and for Females were used.

Note 10 - Other Postemployment Benefits (Continued)

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 - 2015 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, 2015 was 25 years.

Note 11 - 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 nonunion employees in the plan was \$177,499. The current year contribution was calculated based on covered payroll of \$177,499, resulting in an employer contribution of \$10,472.

Note 12 - 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 13 - Risk Management

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

Note 14 - Joint Ventures

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, 2015, 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.

Note 14 - Joint Ventures (Continued)

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 \$778,625 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2015, the City was billed \$96,865 by the Fire Authority. At year end, the City owed \$28,701 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.

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, 2015, the City's contribution to Davison Community Enrichment and Recreation was \$45,000.

Note 15 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the City's 2016 fiscal year.

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 supplementary 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.

Note 16 - Change in Accounting

During the current year, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the government-wide statements and the proprietary funds now include a liability for our unfunded legacy costs. Some of the changes in this net pension liability will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to the pension footnote for further details. This change does not impact the General Fund or any other governmental fund.

The effect of this change is as follows:

	Governmental Activities	Business-type Activities	Sewer Fund	Water Fund
Net position - June 30, 2014 - As previously reported	\$ 6,367,934	\$ 4,430,734	\$ 1,731,434	\$ 2,699,300
Adjustment to record beginning net pension liability	(3,632,335)	(1,167,467)	(449,025)	(718,442)
Net position - June 30, 2014 - As restated	<u>\$ 2,735,599</u>	<u>\$ 3,263,267</u>	<u>\$ 1,282,409</u>	<u>\$ 1,980,858</u>

Required Supplemental Information

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,252,500	\$ 1,225,500	\$ 1,241,100	\$ 15,600
Licenses and permits	10,400	10,400	10,719	319
State-shared revenue and grants	609,200	584,455	575,161	(9,294)
Charges for services	81,400	85,600	87,653	2,053
Fines and forfeitures	24,250	24,250	25,748	1,498
Investment income	6,250	11,750	9,452	(2,298)
Other revenue	196,600	203,750	203,068	(682)
Total revenue	2,180,600	2,145,705	2,152,901	7,196
Expenditures - Current				
General government:				
Executive expenses	116,165	130,625	122,319	8,306
Planning commission	4,250	11,250	10,787	463
Legislative	19,980	20,900	18,969	1,931
Administration expenses	360,325	379,075	349,800	29,275
Treasurer	76,350	77,350	73,769	3,581
Assessing	27,600	25,250	25,147	103
Board of Appeals	1,450	1,450	891	559
Clerk	110,075	119,575	106,990	12,585
Elections	8,600	11,600	9,775	1,825
Hall and grounds	84,700	104,100	87,636	16,464
Less reimbursement from:				
Local streets	(8,300)	(8,300)	(8,300)	-
Major streets	(21,650)	(21,650)	(21,650)	-
Water	(186,000)	(186,000)	(186,000)	-
Sewer	(186,000)	(186,000)	(186,000)	-
Equipment	(50,000)	(50,000)	(50,000)	-
Total general government	357,545	429,225	354,133	75,092
Public safety:				
Police protection	1,118,055	1,072,950	983,062	89,888
Fire protection	130,300	115,000	96,865	18,135
Building and code enforcement	24,650	29,300	27,990	1,310
Total public safety	1,273,005	1,217,250	1,107,917	109,333

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures - Current (Continued)				
Public works:				
Public works	\$ 210,465	\$ 261,750	\$ 248,516	\$ 13,234
Street lighting	85,100	85,100	81,247	3,853
Public improvements	31,250	50,500	39,524	10,976
Off-street parking	6,650	4,000	3,402	598
Total public works	333,465	401,350	372,689	28,661
Recreation and culture:				
Library	35,850	40,600	34,936	5,664
Parks and recreation	168,250	145,250	133,275	11,975
Senior citizens	4,100	4,100	4,058	42
Community development	(5,500)	(12,000)	(12,765)	765
Total recreation and culture	202,700	177,950	159,504	18,446
Total expenditures	2,166,715	2,225,775	1,994,243	231,532
Excess of Revenue Over (Under)				
Expenditures	13,885	(80,070)	158,658	238,728
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	2,876	2,876
Transfers in	(13,885)	-	-	-
Transfers out	-	17,650	13,650	4,000
Total other financing sources (uses)	(13,885)	(17,650)	(10,774)	6,876
Net Change in Fund Balance	-	(97,720)	147,884	245,604
Fund Balance - Beginning of year	1,287,987	1,287,987	1,287,987	-
Fund Balance - End of year	<u>\$ 1,287,987</u>	<u>\$ 1,190,267</u>	<u>\$ 1,435,871</u>	<u>\$ 245,604</u>

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 252,500	\$ 268,800	\$ 274,242	\$ 5,442
Investment income	250	125	68	(57)
Other revenue	-	1,100	1,136	36
Total revenue	252,750	270,025	275,446	5,421
Expenditures - Current -				
Highway and streets	211,925	241,550	188,279	53,271
Excess of Revenue Over Expenditures	40,825	28,475	87,167	58,692
Other Financing Sources -				
Transfers in	32,475	32,475	32,475	-
Net Change in Fund Balance	73,300	60,950	119,642	58,692
Fund Balance - Beginning of year	178,055	178,055	178,055	-
Fund Balance - End of year	<u>\$ 251,355</u>	<u>\$ 239,005</u>	<u>\$ 297,697</u>	<u>\$ 58,692</u>

City of Davison, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 90,000	\$ 91,500	\$ 92,620	\$ 1,120
Investment income	190	190	89	(101)
Total revenue	90,190	91,690	92,709	1,019
Expenditures - Current -				
Highway and streets	147,425	152,425	96,318	56,107
Excess of Expenditures Over Revenue	(57,235)	(60,735)	(3,609)	57,126
Other Financing Sources -				
Transfers in	32,475	32,475	32,475	-
Net Change in Fund Balance	(24,760)	(28,260)	28,866	57,126
Fund Balance - Beginning of year	243,523	243,523	243,523	-
Fund Balance - End of year	<u>\$ 218,763</u>	<u>\$ 215,263</u>	<u>\$ 272,389</u>	<u>\$ 57,126</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, 2015

Total Pension Liability	
Service cost	\$ -
Interest	70,505
Changes in benefit terms	-
Differences between expected and actual experience	13,451
Changes in assumptions	98,668
Benefit payments, including refunds	<u>(51,921)</u>
Net Change in Total Pension Liability	130,703
Total Pension Liability - Beginning of year	<u>1,175,075</u>
Total Pension Liability - End of year	<u>\$ 1,305,778</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 22,550
Contributions - Member	-
Net investment income	11,337
Administrative expenses	(15,846)
Benefit payments, including refunds	(51,921)
Other	<u>-</u>
Net Change in Plan Fiduciary Net Position	(33,880)
Plan Fiduciary Net Position - Beginning of year	<u>1,102,798</u>
Plan Fiduciary Net Position - End of year	<u>\$ 1,068,918</u>
City's Net Pension Liability - Ending	<u>\$ 236,860</u>
Plan Fiduciary Net Position as a Percent of Total Pension Liability	81.86 %
Covered Employee Payroll	\$ -
City's Net Pension Liability as a Percent of Covered Employee Payroll	- %

City of Davison, Michigan

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

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

City of Davison, Michigan

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 22,539	\$ 36,587	\$ 28,960	\$ 16,490	\$ 23,332	\$ 113,929	\$ 240,979	\$ 126,244	\$ 161,046	\$ 180,421
Contributions in relation to the actuarially determined contribution	<u>22,550</u>	<u>36,590</u>	<u>28,960</u>	<u>36,500</u>	<u>257,652</u>	<u>114,000</u>	<u>240,000</u>	<u>265,112</u>	<u>128,837</u>	<u>178,617</u>
Contribution (Excess) Deficiency	<u>\$ (11)</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ (20,010)</u>	<u>\$ (234,320)</u>	<u>\$ (71)</u>	<u>\$ 979</u>	<u>\$ (138,868)</u>	<u>\$ 32,209</u>	<u>\$ 1,804</u>
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ 179,883	\$ 172,365	\$ 268,480	\$ 284,085	\$ 341,861	\$ 329,138	\$ 381,841
Contributions as a Percentage of Covered Employee Payroll	- %	- %	- %	20.3 %	149.5 %	42.5 %	84.5 %	77.5 %	39.1 %	46.8 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry age normal

Amortization method 12.5 years

Remaining amortization period 12.5 years

Asset valuation method Market value

Inflation 2.25%

Salary increases 0%

Investment rate of return 5.31%

Retirement age Age 60

Mortality 2015 PPA IRS Small Plan Mortality Table

Other information The amortization period changed to 12.5 years. The Mortality Rate assumptions have been updated to 2015 PPA funding table.

City of Davison, Michigan

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

	2015
Total Pension Liability	
Service cost	\$ 156,189
Interest	842,204
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds	(553,619)
Net Change in Total Pension Liability	444,774
Total Pension Liability - Beginning of year	10,407,254
Total Pension Liability - End of year	\$ 10,852,028
Plan Fiduciary Net Position	
Contributions - Employer	\$ 339,648
Contributions - Member	48,741
Net investment income	361,710
Administrative expenses	(13,261)
Benefit payments, including refunds	(553,619)
Other	-
Net Change in Plan Fiduciary Net Position	183,219
Plan Fiduciary Net Position - Beginning of year	5,752,688
Plan Fiduciary Net Position - End of year	\$ 5,935,907
City's Net Pension Liability - Ending	\$ 4,916,121
Plan Fiduciary Net Position as a Percent of Total Pension Liability	54.70 %
Covered Employee Payroll	\$ 946,636
City's Net Pension Liability as a Percent of Covered Employee Payroll	519.3 %

City of Davison, Michigan

Required Supplemental Information OPEB System Schedule Year Ended June 30, 2015

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
6/30/15	\$ 370,272	\$ 15,382,442	\$ 15,012,170	2.4	\$ 929,316	32.8
6/30/14	335,720	14,435,461	14,099,741	2.3	846,446	28.6
6/30/13	199,139	12,264,411	12,065,272	1.6	725,975	36.0

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, 2015

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Refuse Collection Fund	Inflow and Infiltration Debt Fund	
Assets			
Cash and investments	<u>\$ 26,720</u>	<u>\$ 508,804</u>	<u>\$ 535,524</u>
Liabilities and Fund Balances			
Liabilities - Accounts payable	\$ 17,622	\$ 486	\$ 18,108
Fund Balances - Restricted			
Debt service	-	508,318	508,318
Rubbish collections	<u>9,098</u>	<u>-</u>	<u>9,098</u>
Total fund balances	<u>9,098</u>	<u>508,318</u>	<u>517,416</u>
Total liabilities and fund balances	<u>\$ 26,720</u>	<u>\$ 508,804</u>	<u>\$ 535,524</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, 2015

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Refuse Collection Fund	Inflow and Infiltration Debt Fund	
Revenue			
Property taxes	\$ -	\$ 130,136	\$ 130,136
Charges for services	230,880	-	230,880
Investment income	39	398	437
Total revenue	230,919	130,534	361,453
Expenditures			
Current - Public works	244,255	-	244,255
Debt service:			
Principal	-	80,000	80,000
Interest on long-term debt	-	20,500	20,500
Total expenditures	244,255	100,500	344,755
Excess of Revenue (Under) Over Expenditures	(13,336)	30,034	16,698
Other Financing Sources - Transfers in	13,650	-	13,650
Net Change in Fund Balances	314	30,034	30,348
Fund Balances - Beginning of year	8,784	478,284	487,068
Fund Balances - End of year	\$ 9,098	\$ 508,318	\$ 517,416