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# City of Davison, Michigan

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**Financial Report  
with Supplemental Information  
June 30, 2020**

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-6
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet to the Statement of Net Position	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Position	14
Statement of Revenue, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16-17
Fiduciary Funds:	
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	19
Component Units:	
Statement of Net Position	20
Statement of Activities	21-22
Notes to Financial Statements	23-51
<b>Required Supplemental Information</b>	52
Budgetary Comparison Schedule - General Fund	53
Budgetary Comparison Schedule - Major Special Revenue Funds	54-56
Schedule of Changes in the Net Pension Liability and Related Ratios - Union and Supervisors Pension Plan	57
Schedule of Pension Contributions - Union and Supervisors Pension Plan	58
Schedule of Changes in the Net Pension Liability and Related Ratios - Nonunion Pension Plan	59
Schedule of Pension Investment Returns - Nonunion Pension Plan	60
Schedule of Pension Contributions - Nonunion Pension Plan	61
Schedule of Changes in the Net OPEB Liability and Related Ratios	62
Schedule of OPEB Contributions	63
Notes to Required Supplemental Information	64-65

## **Independent Auditor's Report**

To the City Council  
City of Davison, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison, Michigan (the "City") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City of Davison, Michigan's financial statements, as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison, Michigan as of June 30, 2020 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the City Council  
City of Davison, Michigan

***Required Supplemental Information***

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

*Plante & Moran, PLLC*

October 8, 2020

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, 2020. Please read it in conjunction with the City's financial statements, which follow this section.

**Financial Highlights**

- The City's total net position is \$3.8 million.
- The City's overall unrestricted net position is a deficit of \$8.4 million.
- General Fund revenue exceeded expenditures by approximately \$99 thousand, leaving the General Fund with a fund balance of \$1,367,190.

**Using This Annual Report**

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

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

**The City's Net Position**

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

	Governmental Activities			
	2019	2020	Change	Percent Change
<b>Assets</b>				
Other assets	\$ 4,760,299	\$ 5,074,310	\$ 314,011	6.6
Capital assets	5,734,377	5,482,157	(252,220)	(4.4)
Total assets	10,494,676	10,556,467	61,791	0.6
<b>Deferred Outflows of Resources</b>	1,174,728	1,155,298	(19,430)	(1.7)
<b>Liabilities</b>				
Current liabilities	299,463	146,990	(152,473)	(50.9)
Long-term liabilities	11,672,643	10,944,023	(728,620)	(6.2)
Total liabilities	11,972,106	11,091,013	(881,093)	(7.4)
<b>Deferred Inflows of Resources</b>	69,175	706,224	637,049	920.9
<b>Net Position (Deficit)</b>				
Investment in capital assets	4,837,814	4,670,594	(167,220)	(3.5)
Restricted	1,849,691	2,207,440	357,749	19.3
Unrestricted	(7,059,382)	(6,963,506)	95,876	(1.4)
Total net position (deficit)	<u>\$ (371,877)</u>	<u>\$ (85,472)</u>	<u>\$ 286,405</u>	(77.0)

Management's Discussion and Analysis (Continued)

	Business-type Activities			
	2019	2020	Change	Percent Change
<b>Assets</b>				
Other assets	\$ 3,658,864	\$ 4,148,504	\$ 489,640	13.4
Capital assets	6,526,135	6,313,671	(212,464)	(3.3)
Total assets	10,184,999	10,462,175	277,176	2.7
<b>Deferred Outflows of Resources</b>	468,242	488,901	20,659	4.4
<b>Liabilities</b>				
Current liabilities	115,474	101,498	(13,976)	(12.1)
Long-term liabilities	6,897,475	6,618,015	(279,460)	(4.1)
Total liabilities	7,012,949	6,719,513	(293,436)	(4.2)
<b>Deferred Inflows of Resources</b>	10,294	347,023	336,729	3,271.1
<b>Net Position (Deficit)</b>				
Investment in capital assets	4,376,154	4,533,690	157,536	3.6
Restricted	890,837	825,734	(65,103)	(7.3)
Unrestricted	(1,636,993)	(1,474,884)	162,109	(9.9)
Total net position (deficit)	<u>\$ 3,629,998</u>	<u>\$ 3,884,540</u>	<u>\$ 254,542</u>	7.0

**Governmental Activities**

The governmental net position increased 77.0 percent from a year ago, increasing from a deficit of \$(371,877) to a deficit of \$(85,472). The increase was due primarily to increases in other assets and deferred outflows of resources related to pension and OPEB costs.

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, increased by \$95,876 for the governmental activities. This represents an increase of approximately 1.4 percent. The current level of unrestricted net position for our governmental activities stands at \$(6,963,506).

**Business-type Activities**

The net position of business-type activities increased 7.0 percent from a year ago, increasing from \$3,629,998 to \$3,884,540.

Unrestricted net position of business-type activities increased by \$162,109, approximately 9.9 percent. The current level of unrestricted net position stands at a deficit of \$(1,474,884).

# City of Davison, Michigan

## Management's Discussion and Analysis (Continued)

### The City's Changes in Net Position

	Governmental Activities			
	2019	2020	Change	Percent Change
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 763,086	\$ 737,394	\$ (25,692)	(3.4)
Operating grants	607,417	550,158	(57,259)	(9.4)
Capital grants	178,371	174,220	(4,151)	(2.3)
General revenue:				
Property taxes	1,539,256	1,608,663	69,407	4.5
State-shared revenue	574,064	559,154	(14,910)	(2.6)
Investment earnings	13,590	19,389	5,799	42.7
Other revenue	180,561	187,589	7,028	3.9
Total revenue	3,856,345	3,836,567	(19,778)	(0.5)
<b>Expenses</b>				
General government	716,343	683,998	(32,345)	(4.5)
Public safety	1,429,057	1,398,182	(30,875)	(2.2)
Public works	1,189,994	1,245,612	55,618	4.7
Community and economic development	2,444	6,675	4,231	173.1
Recreation and culture	269,850	202,161	(67,689)	(25.1)
Debt service	14,914	13,534	(1,380)	(9.3)
Total expenses	3,622,602	3,550,162	(72,440)	(2.0)
<b>Change in Net Position</b>	233,743	286,405	52,662	22.5
<b>Net Position - Beginning of year</b>	(605,620)	(371,877)	233,743	(38.6)
<b>Net Position - End of year</b>	<u>\$ (371,877)</u>	<u>\$ (85,472)</u>	<u>\$ 286,405</u>	(77.0)

	Business-type Activities			
	2019	2020	Change	Percent Change
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 2,747,842	\$ 2,881,680	\$ 133,838	4.9
Operating grants	118,091	85,012	(33,079)	(28.0)
General revenue - Investment earnings	2,924	6,251	3,327	113.8
Total revenue	2,868,857	2,972,943	104,086	3.6
<b>Operating Expenses</b>	2,934,538	2,718,401	(216,137)	(7.4)
<b>Change in Net Position</b>	(65,681)	254,542	320,223	(487.5)
<b>Net Position - Beginning of year, as adjusted</b>	3,695,679	3,629,998	(65,681)	(1.8)
<b>Net Position - End of year</b>	<u>\$ 3,629,998</u>	<u>\$ 3,884,540</u>	<u>\$ 254,542</u>	7.0

### Governmental Activities

The City's total governmental revenue decreased by \$19,778, or 0.5 percent. This was due primarily to a decrease in operating grants.

Expenses decreased by \$72,440, or 2.0 percent during the year. This was due primarily to a decrease in recreation and culture resulting from a decrease in projects performed during the year.

#### **Business-type Activities**

The City's total business-type revenue decreased by \$104,086, or 3.6 percent. This was due primarily to an increase in capital grants.

Expenses decreased by \$216,137, or 7.4 percent during the year. This was due primarily to a decrease in pension and OPEB expense resulting from an increase in these respective liabilities.

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

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes and to show accountability for certain activities, such as special property tax millages. The City's major funds for 2020 include the General Fund, Major Streets Fund, Local Streets Fund, and Refuse Collection Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1.4 million in 2020. Police services are partially supported by a 1.4980 mill levy, which is designated specifically for police protection.

#### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall stayed below budget, resulting in total expenditures of approximately \$133 thousand under budget. That resulted in an overall increase in General Fund fund balance of approximately \$99 thousand, which is higher than the amended budgeted change of \$0.

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

At the end of 2020, the City had invested approximately \$9.2 million in capital assets, net of related debt. Capital assets, as stated in this annual financial report, do not include some prior year infrastructure items, such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, the GASB has allowed cities to comply with this portion of Statement No. 34 prospectively. Additional information on the City's capital assets can be found in Note 5 of this report.

At year end, the City had approximately \$901 thousand in bonds and other debt outstanding for governmental activities and approximately \$1.8 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 general obligation bonds will be repaid through a 1.3481 mill levy approved by the voters. Additional information on the City's long-term debt can be found in Note 7 of this report.

#### ***Economic Factors and Next Year's Budgets and Rates***

The COVID-19 pandemic will likely affect the City's finances and budgets in fiscal year 2021. State revenue sharing and ACT 51 MTF payments are projected to show no increases. The economic impact of the pandemic on the public may result in increased delinquency rates for property tax collections and utility payments. Between the existing cash reserves and the ability to adjust certain expense categories, the City is well positioned to navigate the post-pandemic financial landscape.

Overall, we expect no significant change in total revenue except for USDA and the Stormwater, Asset Management, and Wastewater (SAW) grant funding. Property tax revenue is expected to be unchanged.

#### ***Requests for Further Information***

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



June 30, 2020

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 3,799,752	\$ 2,770,370	\$ 6,570,122	\$ 149,628
Receivables	212,090	724,074	936,164	-
Internal balances	5,334	(5,334)	-	-
Inventory	29,096	-	29,096	-
Prepaid expenses and other assets	52,053	7,241	59,294	-
Restricted assets (Note 1)	-	652,153	652,153	-
Investment in joint ventures	975,985	-	975,985	-
Land held for resale (Note 1)	-	-	-	79,880
Capital assets: (Note 5)				
Assets not subject to depreciation	1,470,882	1,000	1,471,882	-
Assets subject to depreciation - Net	4,011,275	6,312,671	10,323,946	3,142
Total assets	10,556,467	10,462,175	21,018,642	232,650
<b>Deferred Outflows of Resources</b>				
Deferred pension costs (Note 8)	741,556	285,118	1,026,674	-
Deferred OPEB costs (Note 9)	413,742	203,783	617,525	-
Total deferred outflows of resources	1,155,298	488,901	1,644,199	-
<b>Liabilities</b>				
Accounts payable	87,510	59,103	146,613	1,770
Due to other governmental units	4,513	-	4,513	-
Deposits	-	14,034	14,034	-
Accrued liabilities and other	54,967	28,361	83,328	-
Noncurrent liabilities:				
Due within one year: (Note 7)				
Compensated absences	89,326	11,675	101,001	-
Current portion of long-term debt	85,000	380,000	465,000	-
Due in more than one year:				
Net OPEB obligation (Note 9)	4,918,728	2,422,659	7,341,387	-
Net pension liability (Note 8)	5,124,406	2,403,700	7,528,106	-
Long-term debt (Note 7)	726,563	1,399,981	2,126,544	-
Total liabilities	11,091,013	6,719,513	17,810,526	1,770
<b>Deferred Inflows of Resources</b>				
Deferred pension cost reductions (Note 8)	3,758	1,033	4,791	-
Deferred OPEB cost reductions (Note 9)	702,466	345,990	1,048,456	-
Total deferred inflows of resources	706,224	347,023	1,053,247	-
<b>Net Position (Deficit)</b>				
Net investment in capital assets	4,670,594	4,533,690	9,204,284	3,142
Restricted for:				
Street maintenance and construction	1,516,067	-	1,516,067	-
Debt service	667,825	-	667,825	-
Rubbish collections	23,548	-	23,548	-
Capital projects	-	173,581	173,581	-
Revenue bond reserve	-	652,153	652,153	-
Unrestricted (deficit)	(6,963,506)	(1,474,884)	(8,438,390)	227,738
Total net position (deficit)	\$ (85,472)	\$ 3,884,540	\$ 3,799,068	\$ 230,880

# City of Davison, Michigan

Functions/Programs	Program Revenue			Capital Grants and Contributions
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
General government	\$ 683,998	\$ 399,167	\$ -	\$ 170,520
Public safety	1,398,182	20,226	-	-
Public works	1,245,612	312,560	550,158	-
Community and economic development	6,675	-	-	3,700
Recreation and culture	202,161	5,441	-	-
Interest on long-term debt	13,534	-	-	-
Total governmental activities	3,550,162	737,394	550,158	174,220
Business-type activities:				
Sewer Fund	1,512,668	1,259,793	85,012	-
Water Fund	1,205,733	1,621,887	-	-
Total business-type activities	2,718,401	2,881,680	85,012	-
Total primary government	<b>\$ 6,268,563</b>	<b>\$ 3,619,074</b>	<b>\$ 635,170</b>	<b>\$ 174,220</b>
Component units:				
Downtown Development Authority	\$ 83,204	\$ -	\$ -	\$ -
Local Development Finance Authority	3,901	-	-	-
Total component units	<b>\$ 87,105</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Investment income				
Franchise fees				
Other miscellaneous income				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

## Statement of Activities

**Year Ended June 30, 2020**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (114,311)	\$ -	\$ (114,311)	\$ -
(1,377,956)	-	(1,377,956)	-
(382,894)	-	(382,894)	-
(2,975)	-	(2,975)	-
(196,720)	-	(196,720)	-
(13,534)	-	(13,534)	-
(2,088,390)	-	(2,088,390)	-
-	(167,863)	(167,863)	-
-	416,154	416,154	-
-	248,291	248,291	-
(2,088,390)	248,291	(1,840,099)	-
-	-	-	(83,204)
-	-	-	(3,901)
-	-	-	(87,105)
1,608,663	-	1,608,663	74,009
559,154	-	559,154	33,697
19,389	-	19,389	20
88,664	-	88,664	-
98,925	6,251	105,176	26,524
2,374,795	6,251	2,381,046	134,250
286,405	254,542	540,947	47,145
(371,877)	3,629,998	3,258,121	183,735
<b>\$ (85,472)</b>	<b>\$ 3,884,540</b>	<b>\$ 3,799,068</b>	<b>\$ 230,880</b>

Governmental Funds  
Balance Sheet

June 30, 2020

	General Fund	Major Streets Fund	Local Streets Fund	Refuse Collection Fund	Nonmajor Fund - Inflow and Infiltration Debt Fund	Total
<b>Assets</b>						
Cash and cash equivalents (Note 3)	\$ 1,260,512	\$ 918,737	\$ 530,389	\$ 46,219	\$ 671,523	\$ 3,427,380
Receivables:						
Property taxes receivable	1,735	-	-	-	-	1,735
Other receivables	52,163	-	-	-	14,067	66,230
Due from other governmental units	65,381	50,620	19,382	-	-	135,383
Due from other funds (Note 6)	5,977	-	76	-	-	6,053
Inventory	29,096	-	-	-	-	29,096
Prepaid expenses and other assets	49,151	90	201	-	-	49,442
<b>Total assets</b>	<b>\$ 1,464,015</b>	<b>\$ 969,447</b>	<b>\$ 550,048</b>	<b>\$ 46,219</b>	<b>\$ 685,590</b>	<b>\$ 3,715,319</b>
<b>Liabilities</b>						
Accounts payable	\$ 43,232	\$ 2,037	\$ -	\$ 22,671	\$ 17,765	\$ 85,705
Due to other governmental units	4,513	-	-	-	-	4,513
Due to other funds (Note 6)	-	107	68	-	-	175
Accrued liabilities and other	49,080	1,216	-	-	-	50,296
<b>Total liabilities</b>	<b>96,825</b>	<b>3,360</b>	<b>68</b>	<b>22,671</b>	<b>17,765</b>	<b>140,689</b>
<b>Fund Balances</b>						
Nonspendable:						
Inventory	29,096	-	-	-	-	29,096
Prepays	49,151	90	201	-	-	49,442
Restricted:						
Street maintenance and construction	-	965,997	549,779	-	-	1,515,776
Debt service	-	-	-	-	667,825	667,825
Rubbish collections	-	-	-	23,548	-	23,548
Assigned - Subsequent year's budget	36,250	-	-	-	-	36,250
Unassigned	1,252,693	-	-	-	-	1,252,693
<b>Total fund balances</b>	<b>1,367,190</b>	<b>966,087</b>	<b>549,980</b>	<b>23,548</b>	<b>667,825</b>	<b>3,574,630</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,464,015</b>	<b>\$ 969,447</b>	<b>\$ 550,048</b>	<b>\$ 46,219</b>	<b>\$ 685,590</b>	<b>\$ 3,715,319</b>

**Governmental Funds**

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

**June 30, 2020**

<b>Fund Balances Reported in Governmental Funds</b>	<b>\$</b>	<b>3,574,630</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		5,107,271
Investments in joint ventures are not financial resources and are not reported in the funds		975,985
Bonds payable are not due and payable in the current period and are not reported in the funds		(811,563)
Accrued interest is not due and payable in the current period and is not reported in the funds		(3,297)
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		(89,326)
Net pension liability does not present a claim on current financial resources and is not reported as a fund liability		(5,124,406)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities		(4,918,728)
Deferred outflows of resources related to pensions		741,556
Deferred outflows of resources related to OPEB		413,742
Deferred inflows of resources related to pensions		(3,758)
Deferred inflows of resources related to OPEB		(702,466)
Internal service funds are included as part of governmental activities		754,888
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(85,472)</u></b>

Governmental Funds  
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2020

	General Fund	Major Streets Fund	Local Streets Fund	Refuse Collection Fund	Nonmajor Fund - Inflow and Infiltration Debt Fund	Total
<b>Revenue</b>						
Property taxes	\$ 1,460,572	\$ -	\$ -	\$ -	\$ 148,091	\$ 1,608,663
Special assessments	-	-	-	310,170	-	310,170
Intergovernmental - State-shared revenue and grants	596,327	402,551	147,607	-	119,345	1,265,830
Charges for services	19,087	-	-	-	-	19,087
Fines and forfeitures	10,026	-	-	-	-	10,026
Licenses and permits	10,437	-	-	-	-	10,437
Interest and rentals:						
Investment earnings	9,675	401	336	37	1,602	12,051
Rental income	74,215	-	-	-	-	74,215
Other revenue:						
Miscellaneous income	104,355	-	-	-	-	104,355
Cable franchise fees	88,664	-	-	-	-	88,664
Total revenue	2,373,358	402,952	147,943	310,207	269,038	3,503,498
<b>Expenditures</b>						
Current services:						
General government	310,821	-	-	-	-	310,821
Public safety	1,377,294	7,362	-	-	-	1,384,656
Public works	410,910	129,508	78,500	325,537	132,605	1,077,060
Community and economic development	6,675	-	-	-	-	6,675
Recreation and culture	168,329	-	-	-	-	168,329
Debt service:						
Principal	-	-	-	-	85,000	85,000
Interest on long-term debt	-	-	-	-	13,879	13,879
Total expenditures	2,274,029	136,870	78,500	325,537	231,484	3,046,420
<b>Net Change in Fund Balances</b>	99,329	266,082	69,443	(15,330)	37,554	457,078
<b>Fund Balances - Beginning of year</b>	1,267,861	700,005	480,537	38,878	630,271	3,117,552
<b>Fund Balances - End of year</b>	<u>\$ 1,367,190</u>	<u>\$ 966,087</u>	<u>\$ 549,980</u>	<u>\$ 23,548</u>	<u>\$ 667,825</u>	<u>\$ 3,574,630</u>

**Governmental Funds**

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

**Year Ended June 30, 2020**

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$</b>	<b>457,078</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay		41,892
Depreciation expense		(280,854)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available		(23,475)
Changes in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment		(11,719)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)		85,000
Change in investment in joint venture		(20,811)
Change in accrued interest payable		345
The change in the net pension liability is recorded when incurred in the statement of activities		(1,007)
The change in the net OPEB liability is recorded when incurred in the statement of activities		656,346
Change in deferred outflows of resources related to pensions is recorded in the statement of activities		(94,906)
Change in deferred outflows of resources related to OPEB is recorded in the statement of activities		75,476
Change in deferred inflows of resources related to pensions is recorded in the statement of activities		65,417
Change in deferred inflows of resources related to OPEB is recorded in the statement of activities		(702,466)
Internal service funds are included as part of governmental activities		40,089
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>286,405</u></b>

Proprietary Funds  
Statement of Net Position

June 30, 2020

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,633,520	\$ 1,136,850	\$ 2,770,370	\$ 372,372
Receivables:				
Receivables from sales to customers on account	334,778	389,296	724,074	-
Other receivables	-	-	-	8,742
Prepaid expenses and other assets	3,068	4,173	7,241	2,611
Total current assets	1,971,366	1,530,319	3,501,685	383,725
Noncurrent assets:				
Restricted assets (Note 1)	-	652,153	652,153	-
Capital assets - Net (Note 5)	1,084,612	5,229,059	6,313,671	374,886
Total noncurrent assets	1,084,612	5,881,212	6,965,824	374,886
Total assets	3,055,978	7,411,531	10,467,509	758,611
<b>Deferred Outflows of Resources</b>				
Deferred pension costs (Note 8)	112,319	172,799	285,118	-
Deferred OPEB costs (Note 9)	80,278	123,505	203,783	-
Total deferred outflows of resources	192,597	296,304	488,901	-
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	56,122	2,981	59,103	1,805
Due to other funds (Note 6)	2,643	2,691	5,334	544
Deposits	-	14,034	14,034	-
Accrued liabilities and other	6,858	21,503	28,361	1,374
Compensated absences (Note 7)	3,529	8,146	11,675	-
Current portion of long-term debt (Note 7)	-	380,000	380,000	-
Total current liabilities	69,152	429,355	498,507	3,723
Noncurrent liabilities:				
Net pension liability (Note 8)	946,912	1,456,788	2,403,700	-
Net OPEB obligation (Note 9)	954,381	1,468,278	2,422,659	-
Long-term debt (Note 7)	-	1,399,981	1,399,981	-
Total noncurrent liabilities	1,901,293	4,325,047	6,226,340	-
Total liabilities	1,970,445	4,754,402	6,724,847	3,723
<b>Deferred Inflows of Resources</b>				
Deferred pension cost reductions (Note 8)	407	626	1,033	-
Deferred OPEB cost reductions (Note 9)	136,299	209,691	345,990	-
Total deferred inflows of resources	136,706	210,317	347,023	-
<b>Net Position</b>				
Net investment in capital assets	1,084,612	3,449,078	4,533,690	374,886
Restricted:				
Capital improvement	77,349	96,232	173,581	-
Revenue bond reserve	-	652,153	652,153	-
Unrestricted (deficit)	(20,537)	(1,454,347)	(1,474,884)	380,002
Total net position	\$ 1,141,424	\$ 2,743,116	\$ 3,884,540	\$ 754,888



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

Year Ended June 30, 2020

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Operating Revenue</b>				
Sale of water	\$ -	\$ 1,515,245	\$ 1,515,245	\$ -
Sewage disposal charges	1,253,993	-	1,253,993	-
Other sales to customers	-	8,000	8,000	-
Miscellaneous	5,800	98,642	104,442	-
Charges to other funds	-	-	-	279,655
Total operating revenue	1,259,793	1,621,887	2,881,680	279,655
<b>Operating Expenses</b>				
Cost of sewage treatment	569,962	-	569,962	-
Water plant operations	-	525	525	-
Wages and benefits	673,674	620,411	1,294,085	111,194
Supplies	25,806	70,674	96,480	18,901
Heat, light, and power	5,434	78,652	84,086	-
Equipment maintenance and repair	50,848	96,768	147,616	37,112
Insurance expense	8,035	11,360	19,395	13,575
Professional fees	12,433	16,128	28,561	-
Miscellaneous	18,778	31,019	49,797	-
Depreciation	53,240	234,327	287,567	141,673
Total operating expenses	1,418,210	1,159,864	2,578,074	322,455
<b>Operating (Loss) Income</b>	(158,417)	462,023	303,606	(42,800)
<b>Nonoperating (Expense) Revenue</b>				
Interest expense	-	(45,869)	(45,869)	-
Other nonoperating expenses	(94,458)	-	(94,458)	-
Gain on sale of assets	-	-	-	30,051
State grants	85,012	-	85,012	-
Investment income	4,249	2,002	6,251	7,338
Total nonoperating (expense) revenue	(5,197)	(43,867)	(49,064)	37,389
<b>Capital Contributions</b>	-	-	-	45,500
<b>Change in Net Position</b>	(163,614)	418,156	254,542	40,089
<b>Net Position - Beginning of year</b>	1,305,038	2,324,960	3,629,998	714,799
<b>Net Position - End of year</b>	<u>\$ 1,141,424</u>	<u>\$ 2,743,116</u>	<u>\$ 3,884,540</u>	<u>\$ 754,888</u>

Proprietary Funds  
Statement of Cash Flows

Year Ended June 30, 2020

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 1,232,186	\$ 1,588,603	\$ 2,820,789	\$ -
Receipts from interfund services and reimbursements	1,386	2,415	3,801	281,725
Payments to suppliers	(687,581)	(308,059)	(995,640)	(180,580)
Payments to employees	(363,499)	(534,534)	(898,033)	(110,300)
Claims paid	-	-	-	(875)
Other receipts	-	-	-	7,186
Net cash and cash equivalents provided by (used in) operating activities	182,492	748,425	930,917	(2,844)
<b>Cash Flows from Noncapital Financing Activities</b>				
State grants	85,012	-	85,012	-
Other payments	(94,458)	-	(94,458)	-
Net cash and cash equivalents used in noncapital financing activities	(9,446)	-	(9,446)	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Receipt of capital grants	-	-	-	45,500
Proceeds from sale of capital assets	-	-	-	30,085
Purchase of capital assets	(18,788)	(56,315)	(75,103)	(128,415)
Principal and interest paid on capital debt	-	(418,350)	(418,350)	-
Net cash and cash equivalents used in capital and related financing activities	(18,788)	(474,665)	(493,453)	(52,830)
<b>Cash Flows Provided by Investing Activities -</b>				
Interest received on investments	4,249	2,002	6,251	7,304
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	158,507	275,762	434,269	(48,370)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,475,013	1,513,241	2,988,254	420,742
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,633,520</u>	<u>\$ 1,789,003</u>	<u>\$ 3,422,523</u>	<u>\$ 372,372</u>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 1,633,520	\$ 1,136,850	\$ 2,770,370	\$ 372,372
Restricted cash	-	652,153	652,153	-
Total cash and cash equivalents	<u>\$ 1,633,520</u>	<u>\$ 1,789,003</u>	<u>\$ 3,422,523</u>	<u>\$ 372,372</u>

Proprietary Funds  
Statement of Cash Flows (Continued)

Year Ended June 30, 2020

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>				
Operating (loss) income	\$ (158,417)	\$ 462,023	\$ 303,606	\$ (42,800)
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation	53,240	234,327	287,567	141,673
Changes in assets and liabilities:				
Receivables	(27,607)	(33,284)	(60,891)	7,186
Due to and from other funds	1,386	2,415	3,801	2,070
Prepaid and other assets	311	(4,607)	(4,296)	(158)
Net pension or OPEB asset	201,899	85,877	287,776	19
Accounts payable	(23,208)	1,674	(21,534)	(110,834)
Accrued and other liabilities	134,888	-	134,888	-
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 182,492</u>	<u>\$ 748,425</u>	<u>\$ 930,917</u>	<u>\$ (2,844)</u>

Fiduciary Funds  
Statement of Fiduciary Net Position

June 30, 2020

	Nonunion Pension Benefit Trust Fund	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 22,408	\$ 7,176
Investments:		
Stocks	280,677	-
Bonds	153,919	-
Real estate	11,484	-
Mutual funds	630,989	-
Receivables	2,239	-
Total assets	1,101,716	<u>\$ 7,176</u>
<b>Liabilities - Accounts payable</b>	-	<u>\$ 7,176</u>
<b>Net Position - Restricted for pensions</b>	<u>\$ 1,101,716</u>	

Fiduciary Funds  
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2020

	Nonunion Pension Benefit Trust Fund
<b>Additions</b>	
Investment income (expense):	
Interest and dividends	\$ 40,199
Net decrease in fair value of investments	(38,091)
Investment-related expenses	(8,621)
Net investment expense	(6,513)
Contributions - Employer	40,800
Total additions	34,287
<b>Deductions</b>	
Benefit payments	83,123
Administrative expenses	2,501
Total deductions	85,624
<b>Net Decrease in Net Position Restricted for Pensions</b>	(51,337)
<b>Net Position Restricted for Pensions - Beginning of year</b>	1,153,053
<b>Net Position Restricted for Pensions - End of year</b>	<b>\$ 1,101,716</b>

Component Units  
Statement of Net Position

June 30, 2020

	Downtown Development Authority	Local Development Finance Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 100,685	\$ 48,943	\$ 149,628
Land held for resale (Note 1)	-	79,880	79,880
Capital assets - Net (Note 5)	3,142	-	3,142
Total assets	103,827	128,823	232,650
<b>Liabilities - Accounts payable</b>	1,770	-	1,770
<b>Net Position</b>			
Net investment in capital assets	3,142	-	3,142
Unrestricted	98,915	128,823	227,738
Total net position	<b>\$ 102,057</b>	<b>\$ 128,823</b>	<b>\$ 230,880</b>

**City of Davison, Michigan**

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	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Downtown Development Authority	\$ 83,204	\$ -	\$ -	\$ -
Local Development Finance Authority	3,901	-	-	-
Total	<b><u>\$ 87,105</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

General revenue:  
 Property taxes  
 State-shared revenue  
 Investment income  
 Other miscellaneous income  
 Total general revenue

**Change in Net Position**  
**Net Position** - Beginning of year  
**Net Position** - End of year

Component Units  
Statement of Activities

Year Ended June 30, 2020

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Local Development Finance Authority	Total
\$ (83,204)	\$ -	\$ (83,204)
-	(3,901)	(3,901)
(83,204)	(3,901)	(87,105)
69,195	4,814	74,009
-	33,697	33,697
20	-	20
26,524	-	26,524
95,739	38,511	134,250
12,535	34,610	47,145
89,522	94,213	183,735
<b>\$ 102,057</b>	<b>\$ 128,823</b>	<b>\$ 230,880</b>



**Note 1 - Significant Accounting Policies**

***Reporting Entity***

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

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

**Blended Component Units**

The City of Davison Building Authority's primary purpose is to finance and construct the City's public buildings, and it has been reported as if it were a part of the 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 any deficits of the authority.

**Discretely Presented Component Units**

*Downtown Development Authority*

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

*Local Development Finance Authority*

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

***Report Presentation***

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

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

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

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

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

***Fund Accounting***

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

**Governmental Funds**

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

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

**Proprietary Funds**

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

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

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

**Fiduciary Funds**

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

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

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

**Interfund Activity**

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

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

**Basis of Accounting**

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

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

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

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

**Specific Balances and Transactions**

**Cash and Cash Equivalents**

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

**Investments**

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

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

**Receivables and Payables**

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

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

**Inventories and Prepaid Items**

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

**Restricted Assets**

The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets and total \$652,153 at June 30, 2020.

**Land Held for Resale**

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

**Capital Assets**

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

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

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

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

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

**Long-term Obligations**

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

**Deferred Outflows/Inflows of Resources**

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

The City reports deferred outflows of resources related to the defined benefit pension plans and the OPEB plan. The deferred outflows of resources related to pension and OPEB are reported in the government-wide financial statements and the Water and Sewer funds. Details of the deferred outflows of resources related to pension and OPEB can be found in Notes 8 and 9, respectively.

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

The City reports deferred inflows of resources related to the defined benefit pension plans and the OPEB plan. The deferred inflows of resources to pension and OPEB are reported in the government-wide financial statements and the Water and Sewer funds. Details of the deferred inflows of resources related to pension and OPEB can be found in Notes 8 and 9, respectively.

**Net Position**

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

**Net Position Flow Assumption**

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

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

**Fund Balance Flow Assumptions**

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

**Fund Balance Policies**

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

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

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

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

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

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

**Property Tax Revenue**

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

The City's 2019 tax is levied and collectible on July 1 2019 and is recognized as revenue in the year ended June 30, 2020 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2019 taxable valuation of the City totaled \$112.9 million (a portion of which is abated and a portion of which is captured by the DDA and the LDFA), on which taxes levied consisted of 12.7669 mills for operating and 1.3481 mills for repayment of debt. This resulted in \$1.396 million for operating and \$148 thousand for debt retirement.



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

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

The captured taxable values in excess of the initial taxable values for June 30, 2020 by district are as follows:

District 1	\$	1,980,428
District 2		386,188

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

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

The captured taxable value in excess of the initial taxable values for June 30, 2020 is \$268,101.

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

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

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

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

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

The duration of the Plan shall be 30 years. As of June 30, 2020, there has been no activity for the BRA.

**Note 1 - 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.

**Pension**

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

**Other Postemployment Benefit Costs**

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

**Compensated Absences (Leave Time)**

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

**Proprietary Funds Operating Classification**

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



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

**Use of Estimates**

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

**Upcoming Accounting Pronouncements**

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the City's financial statements for the year ended June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the City's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement were originally effective for the City's financial statements for the June 30, 2021 fiscal year but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the City's financial statements for the year ended June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

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

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates that were postponed by one year after extension within GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. The City does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

In June 2020, the Governmental Accounting Standards Board issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or another type of employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the City's financial statements for the year ending June 30, 2022.

**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, 2019	\$ (704,377)
Current year permit revenue	10,357
Related expenses - Direct costs	<u>35,396</u>
Current year shortfall	<u>(25,039)</u>
Cumulative shortfall June 30, 2020	<u><u>\$ (729,416)</u></u>

**Note 3 - Deposits and Investments**

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

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

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

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$5,667,503 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The DDA and the LDFA had no bank deposits that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk**

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

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

Fiduciary Funds	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fixed income	\$ 153,919	\$ -	\$ 80,285	\$ 44,134	\$ 29,500

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of June 30, 2020, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Fiduciary Funds</b>			
Fixed income	\$ 29,500	AA	S&P
Fixed income	96,147	BBB	S&P
Fixed income	28,272	BBB-	S&P
Mutual funds - Bonds	283,734	not rated	N/A

**Note 4 - Fair Value Measurements**

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

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

June 30, 2020

**Note 4 - Fair Value Measurements (Continued)**

The City has the following recurring fair value measurements as of June 30, 2020:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2020
<b>Investments by Fair Value Level</b>				
Fixed income	\$ 153,919	\$ -	\$ -	\$ 153,919
Equity	280,677	-	-	280,677
Mutual funds	630,989	-	-	630,989
Real estate	11,484	-	-	11,484
Total investments by fair value level	<u>\$ 1,077,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,077,069</u>

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

**Note 5 - Capital Assets**

Capital asset activity of the City's governmental and business-type activities for the year ended June 30, 2020 was as follows:

**Governmental Activities**

	Balance July 1, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets not being depreciated - Land	\$ 1,470,882	\$ -	\$ -	\$ 1,470,882
Capital assets being depreciated:				
Infrastructure	5,021,288	6,768	-	5,028,056
Buildings and improvements	1,550,048	-	-	1,550,048
Machinery and equipment	2,191,761	163,539	(344,311)	2,010,989
Improvements other than buildings	856,507	-	-	856,507
Subtotal	9,619,604	170,307	(344,311)	9,445,600
Accumulated depreciation:				
Infrastructure	1,957,546	228,036	-	2,185,582
Buildings and improvements	970,764	24,596	-	995,360
Machinery and equipment	1,782,311	153,251	(344,311)	1,591,251
Improvements other than buildings	645,488	16,644	-	662,132
Subtotal	5,356,109	422,527	(344,311)	5,434,325
Net capital assets being depreciated	4,263,495	(252,220)	-	4,011,275
Net governmental activities capital assets	<u>\$ 5,734,377</u>	<u>\$ (252,220)</u>	<u>\$ -</u>	<u>\$ 5,482,157</u>

June 30, 2020

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

***Business-type Activities***

	Balance July 1, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets not being depreciated - Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets being depreciated:				
Water and sewer lines	13,347,473	56,713	-	13,404,186
Buildings and improvements	139,395	-	-	139,395
Machinery and equipment	279,721	18,390	-	298,111
Subtotal	13,766,589	75,103	-	13,841,692
Accumulated depreciation:				
Water and sewer lines	6,961,665	271,143	-	7,232,808
Buildings and improvements	81,101	3,429	-	84,530
Machinery and equipment	198,688	12,995	-	211,683
Subtotal	7,241,454	287,567	-	7,529,021
Net capital assets being depreciated	6,525,135	(212,464)	-	6,312,671
Net business-type activities capital assets	<u>\$ 6,526,135</u>	<u>\$ (212,464)</u>	<u>\$ -</u>	<u>\$ 6,313,671</u>

Capital asset activity for the City's component unit for the year ended June 30, 2020 was as follows:

***Component Unit***

	Balance July 1, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets being depreciated - Equipment and furniture	\$ 29,837	\$ -	\$ -	\$ 29,837
Accumulated depreciation - Equipment and furniture	25,676	1,019	-	26,695
Net component unit capital assets	<u>\$ 4,161</u>	<u>\$ (1,019)</u>	<u>\$ -</u>	<u>\$ 3,142</u>

Depreciation expense was charged to programs of the primary government for the year ended June 30, 2020 as follows:

Governmental activities:	
General government	\$ 170,138
Public works	217,720
Recreation and culture	34,669
Total governmental activities	<u>\$ 422,527</u>
Business-type activities:	
Sewer	\$ 53,240
Water	234,327
Total business-type activities	<u>\$ 287,567</u>

June 30, 2020

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

Depreciation expense for the component unit for the year ended June 30, 2020 was as follows:

Component unit activities	\$	1,019
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**Note 6 - Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2020 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 2,691
	Sewer Fund	2,643
	Equipment Fund	544
	Major Streets Fund	31
	Local Streets Fund	68
	Total General Fund	5,977
Local Streets Fund	Major Streets Fund	76
	Total	<u>\$ 6,053</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.

**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.

**Governmental Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements - Capital	\$ 896,563	\$ -	\$ (85,000)	\$ 811,563	\$ 85,000
Improvement Bonds	77,607	93,175	(81,456)	89,326	89,326
Compensated absences					
Total governmental activities long-term debt	<u>\$ 974,170</u>	<u>\$ 93,175</u>	<u>\$ (166,456)</u>	<u>\$ 900,889</u>	<u>\$ 174,326</u>

June 30, 2020

**Note 7 - Long-term Debt (Continued)**

**Business-type Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable					
Direct borrowings and direct placements - 2013 Water Capital Improvement Bonds	\$ 175,000	\$ -	\$ (40,000)	\$ 135,000	\$ 45,000
Other debt - Revenue Bonds - Drinking Water Revolving Loan Fund Debt	1,974,981	-	(330,000)	1,644,981	335,000
Total bonds and contracts payable	2,149,981	-	(370,000)	1,779,981	380,000
Compensated absences	8,112	12,673	(9,110)	11,675	11,675
Total business-type activities long-term debt	<u>\$ 2,158,093</u>	<u>\$ 12,673</u>	<u>\$ (379,110)</u>	<u>\$ 1,791,656</u>	<u>\$ 391,675</u>

**General Obligation Bonds and Contracts**

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. General obligations outstanding at June 30, 2020 are as follows:

	Year Issued	Interest Rates	Maturing	Outstanding
<b>Governmental Activities</b>				
General Obligation Capital Improvement Bonds	2007	1.625%	2028	\$ 811,563
<b>Business-type Activities</b>				
Water Capital Improvement Bonds	2013	1.2% - 4.45%	2023	135,000

**Revenue Bonds**

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Business-type activities utilize revenue bonds to finance the water and sewer system. The City has pledged substantially all of the Water Fund, net of operating expenses, to repay the water revenue bonds listed above. Proceeds from the bonds provided financing for the construction of the water plant. The bonds are payable solely from the net revenue from the water system. The remaining principal and interest to be paid on the bonds is \$1,882,092. During the current year, net revenue of the system was \$696,350, compared to annual debt requirements of \$375,250.



**Note 7 - Long-term Debt (Continued)**

***Debt Service Requirements to Maturity***

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

Years Ending June 30	Governmental Activities			Business-type Activities				
	Direct Borrowings and Direct Placements			Direct Borrowings and Direct Placements		Other Debt		
	Principal	Interest	Total	Principal	Interest	Principal	Interest	Total
2021	\$ 85,000	\$ 12,497	\$ 97,497	\$ 45,000	\$ 2,250	\$ 335,000	\$ 36,937	\$ 419,187
2022	85,000	11,116	96,116	45,000	1,350	345,000	28,437	419,787
2023	90,000	9,694	99,694	45,000	450	365,000	19,562	430,012
2024	90,000	8,232	98,232	-	-	374,981	10,312	385,293
2025	90,000	6,769	96,769	-	-	225,000	2,813	227,813
2026-2030	371,563	12,114	383,677	-	-	-	-	-
Total	\$ 811,563	\$ 60,422	\$ 871,985	\$ 135,000	\$ 4,050	\$ 1,644,981	\$ 98,061	\$ 1,882,092

**Note 8 - Defined Benefit Pension Plans**

***Plan Description***

**Union and Supervisors**

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

**Nonunion**

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

***Benefits Provided***

**Union and Supervisors**

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

***Police Patrol***

All full-time police patrol and dispatcher employees who are members of a class of employees covered by a collective bargaining agreement between the City of Davison, Michigan and a union representing its police employees are eligible to participate in the MERS police patrol pension plan immediately following their hire-in date. As of December 31, 2019, the most recent valuation, there were 6 active plan members, 11 retirees and beneficiaries receiving benefits, and 1 terminated plan member not yet receiving benefits. There are two divisions under the police patrol pension plan, one that closed as of July 1, 2018 and one that includes new employees hired on or after July 1, 2018.



**Note 8 - Defined Benefit Pension Plans (Continued)**

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

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

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

*Department Supervisors*

All full-time department supervisors are eligible to participate in the MERS supervisor pension plan effective immediately following their hire-in date. As of December 31, 2019, the most recent valuation, there were four active plan members, four retirees and beneficiaries receiving benefits, and one terminated plan member not yet receiving benefits.

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

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

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

*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, 2019, the most recent valuation, there were seven active plan members, six retirees and beneficiaries receiving benefits, and two terminated plan member not yet receiving benefits. There are two divisions under the public works pension plan, one that closed as of July 1, 2012 and one that includes new employees hired on or after July 1, 2012.

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

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

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

**Nonunion**

The nonunion pension plan provides retirement, disability, and death benefits. Benefit terms are established and amended by the City Council. The most recent valuation is as of June 30, 2020.

**Note 8 - Defined Benefit Pension Plans (Continued)**

***Employees Covered by Benefit Terms***

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

	Union and Supervisors	Nonunion
Measurement date	December 31, 2019	June 30, 2020
Inactive plan members or beneficiaries currently receiving benefits	21	5
Inactive plan members entitled to but not yet receiving benefits	4	2
Active plan members	17	2
Total employees covered by the plan	<u>42</u>	<u>9</u>

***Contributions***

**Union and Supervisors**

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

The terms of the plans require that the City make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 3.03 percent to 46.21 percent of covered payroll for the MERS plans. The employee contributions ranged from 3.50 percent to 5.00 percent of covered payroll for the MERS plans.

**Nonunion**

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the City Council in accordance with the city charter and plan provisions. For the year ended June 30, 2020, the annual required contribution was \$44,679.

The nonunion pension plan's policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the City Council's adopted asset allocation policy as of December 15, 1998 and is still effective at June 30, 2020:

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

**Note 8 - Defined Benefit Pension Plans (Continued)**

**Rate of Return**

For the year ended June 30, 2020, the annual money-weighted rate of return on the nonunion pension plan investments, net of pension plan investment expense, was (0.57) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability**

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

	Union and Supervisors	Nonunion
Measurement date used for the City's net pension liability	December 31, 2019	June 30, 2020

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

**Union and Supervisors**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2018</b>	\$ 13,426,024	\$ 6,217,520	\$ 7,208,504
Changes for the year:			
Service cost	153,651	-	153,651
Interest	1,048,317	-	1,048,317
Changes in benefits	(185,042)	-	(185,042)
Differences between expected and actual experience	(4,173)	-	(4,173)
Changes in assumptions	535,150	-	535,150
Contributions - Employer	-	600,574	(600,574)
Contributions - Employee	-	49,296	(49,296)
Net investment income	-	837,010	(837,010)
Benefit payments, including refunds	(797,721)	(797,721)	-
Administrative expenses	-	(14,416)	14,416
Net changes	750,182	674,743	75,439
<b>Balance at December 31, 2019</b>	<b>\$ 14,176,206</b>	<b>\$ 6,892,263</b>	<b>\$ 7,283,943</b>

**Assumption Changes - Union and Supervisors**

For the December 31, 2019 actuarial valuation, there was an assumption change that resulted in an increase in the calculated total pension liability. The assumptions changed during the year related to the salary increase and a decrease in the investment rate of return. See below for the assumptions used.

**Note 8 - Defined Benefit Pension Plans (Continued)**

**Nonunion**

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at June 30, 2019</b>	\$ 1,302,584	\$ 1,153,053	\$ 149,531
Changes for the year:			
Service cost	3,168	-	3,168
Interest	75,851	-	75,851
Differences between expected and actual experience	3,291	-	3,291
Changes in assumptions	44,108	-	44,108
Contributions - Employer	-	40,800	(40,800)
Net investment income	-	2,107	(2,107)
Benefit payments, including refunds	(83,123)	(83,123)	-
Administrative expenses	-	(11,121)	11,121
Net changes	43,295	(51,337)	94,632
<b>Balance at June 30, 2020</b>	<u>\$ 1,345,879</u>	<u>\$ 1,101,716</u>	<u>\$ 244,163</u>

The plan's fiduciary net position represents 81.8 percent of the total pension liability.

*Assumption Changes - Nonunion*

For the June 30, 2020 actuarial valuation, there was an assumption change that resulted in a increase in the calculated total pension liability. The assumptions changed during the year related to the mortality assumption being updated. See below for the assumptions used.

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

For the year ended June 30, 2020, the City recognized pension expense of \$881,826.

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 195,828	\$ (3,130)
Changes in assumptions	487,174	(1,661)
Net difference between projected and actual earnings on pension plan investments	60,694	-
Employer contributions to the plan subsequent to the measurement date	282,978	-
Total	<u>\$ 1,026,674</u>	<u>\$ (4,791)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the \$282,978 employer contributions to the plan made subsequent to the measurement date, which will impact the net pension liability in fiscal year 2020 rather than pension expense.

**Note 8 - Defined Benefit Pension Plans (Continued)**

Years Ending June 30	Amount
2021	\$ 293,521
2022	217,005
2023	238,704
2024	(43,262)
2025	12,864
Thereafter	20,073
Total	<u>\$ 738,905</u>

**Actuarial Assumptions**

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

	Union and Supervisors	Nonunion
Inflation	2.50	2.25
Salary increases (including inflation)	3.00	N/A
Investment rate of return (gross of investment expenses)	7.60	6.00

**Union and Supervisors**

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

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

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

**Nonunion**

Mortality rates were based on the PubG-2010 amount weighted Retiree Mortality Tables with generation projection using Scale MP-2018.

**Discount Rate**

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

	Union and Supervisors	Nonunion
Discount rate used to measure total pension liability	7.60%	6.00%

**Projected Cash Flows**

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

June 30, 2020

**Note 8 - Defined Benefit Pension Plans (Continued)**

***Investment Rate of Return***

**Union and Supervisors**

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2019, 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	60.00 %	6.15 %
Global fixed income	20.00	1.26
Private investments	20.00	6.56

**Nonunion**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. Best estimates of arithmetic real rates of return as of June 30, 2020 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity	45.55 %	5.50 %
Fixed income	49.67	2.25
Cash	4.77	-

**Note 8 - Defined Benefit Pension Plans (Continued)**

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

**Union and Supervisors**

The following presents the net pension liability of the City, calculated using the discount rate of 7.60 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 (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	1 Percentage Point Decrease (6.60%)	Current Discount Rate (7.60%)	1 Percentage Point Increase (8.60%)
Net pension liability of the City	\$ 9,039,975	\$ 7,283,943	\$ 5,828,265

**Nonunion**

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

	1 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1 Percentage Point Increase (7.00%)
Net pension liability of the City	\$ 392,225	\$ 244,163	\$ 119,076

***Pension Plan Fiduciary Net Position***

**Union and Supervisors**

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

**Nonunion**

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

**Note 9 - Other Postemployment Benefit Plan**

***Plan Description***

***DPW, Police, and Union Office Employees***

The City provides retiree health care 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 health care benefits to eligible employees, and the employee is required to pay 20 percent of the monthly premiums. Effective July 1, 2018, new employees are no longer eligible for this OPEB plan, and existing employees must now be at least age 50 and have at least 15 years of service (office workers hired prior to July 1, 2012 only need 5 years of service) to qualify for OPEB coverage.

***Supervisors***

The City provides retiree health care benefits to eligible employees and their families. Employees must be at least age 50 and have at least 10 years of service. Effective July 1, 2018, new employees are no longer eligible for this OPEB plan.

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

***Benefits Provided***

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

***Employees Covered by Benefit Terms***

The following members were covered by the benefit terms:

Date of member count	January 1, 2020
Inactive plan members or beneficiaries currently receiving benefits	21
Active plan members	<u>16</u>
Total plan members	<u><u>37</u></u>

***Contributions***

Retiree health care costs are paid by the City on a pay-as-you-go basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2020, the City made payments for postemployment health benefit premiums of \$307,525 and additional contributions of \$58,785.

***Net OPEB Liability***

The City has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability. The June 30, 2020 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2020 measurement date. The June 30, 2020 total OPEB liability was determined by an actuarial valuation performed as of January 1, 2020, which used update procedures to roll forward the estimated liability to June 30, 2020.



**Note 9 - Other Postemployment Benefit Plan (Continued)**

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
<b>Balance at June 30, 2019</b>	\$ 8,794,294	\$ 714,474	\$ 8,079,820
Changes for the year:			
Service cost	130,863	-	130,863
Interest	614,180	-	614,180
Differences between expected and actual experience	(1,397,941)	-	(1,397,941)
Changes in assumptions	297,339	-	297,339
Contributions - Employer	-	366,310	(366,310)
Net investment income	-	17,976	(17,976)
Benefit payments, including refunds	(307,525)	(307,525)	-
Administrative expenses	-	(1,412)	1,412
<b>Net changes</b>	<b>(663,084)</b>	<b>75,349</b>	<b>(738,433)</b>
<b>Balance at June 30, 2020</b>	<b>\$ 8,131,210</b>	<b>\$ 789,823</b>	<b>\$ 7,341,387</b>

The plan's fiduciary net position represents 9.7 percent of the total OPEB liability.

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$549,048.

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,682	\$ (1,048,456)
Changes in assumptions	570,557	-
Net difference between projected and actual earnings on OPEB plan investments	45,286	-
<b>Total</b>	<b>\$ 617,525</b>	<b>\$ (1,048,456)</b>

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

Years Ending June 30	Amount
2021	\$ (145,386)
2022	(145,395)
2023	(146,959)
2024	6,809
<b>Total</b>	<b>\$ (430,931)</b>

**Note 9 - Other Postemployment Benefit Plan (Continued)**

**Actuarial Assumptions**

Salary increase (including inflation)	4.0 percent
Investment rate of return (net of investment expenses)	7.0 percent
Health care cost trend rate	8.25 percent, decreasing by 0.25 percent per year to an ultimate rate of 4.5 percent for 2035 and later years for medical and prescription, 5 percent per year for dental
Mortality rates	PubG-2010 Mortality Tables with generational projection using Scale MP-2018 Separate rates for employees and retirees Separate rates for males and females

**Discount Rate**

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

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

**Investment Rate of Return**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2020 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	60.00 %	6.15 %
Global fixed income	20.00	1.26
Private equity	20.00	6.56

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

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

	1 Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net OPEB liability of the city OPEB plan	\$ 8,610,123	\$ 7,341,387	\$ 6,324,653

**Note 9 - Other Postemployment Benefit Plan (Continued)**

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

The following presents the net OPEB liability of the City, calculated using the health care cost trend rate of 8.00 percent, as well as what the City's net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (7.25%)	Current Health Care Cost Trend Rate (8.25%)	1 Percentage Point Increase (9.25%)
Net OPEB liability of the city OPEB plan	\$ 6,253,623	\$ 7,341,387	\$ 8,701,352

***OPEB Plan Fiduciary Net Position***

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

***Assumption Changes***

In the fiscal year ended June 30, 2020, there were assumption changes that resulted in an increase in the calculated total OPEB liability. The assumptions changed during the year related to the health care trend rate and the mortality tables.

**Note 10 - Defined Contribution Pension Plan**

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

The City's total payroll during the current year for the union office employees in the plan was \$119,371. The current year contribution was calculated based on covered payroll of \$119,371, resulting in an employer contribution of \$6,341.

Effective July 1, 2018, the City provides defined contribution pension benefits for all eligible full-time police patrol and dispatcher employees hired on or after July 1, 2018. The plan is administered by MERS. Eligible employees vest 20 percent each year and will be fully vested after five years of service. The City and eligible employees are required to contribute 5 percent of base wages.

The City's total payroll during the current year for the police patrol and dispatcher employees in the plan was \$36,320. The current year contribution was calculated based on covered payroll of \$36,320, resulting in an employer contribution of \$1,816.

**Note 11 - Deferred Compensation Plan**

The City offers its employees the option to participate in a deferred compensation plan. The City of Davison, Michigan has two plans administered by Nationwide and MERS created in accordance with IRC Section 457. The plans, available to substantially all city employees, permit 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 the gross wages of eligible union office staff employees.

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.

The City's total payroll during the current year for the employees in the plan was \$119,371. The current year contribution was calculated based on covered payroll of \$119,371, resulting in an employer contribution of \$2,181.

**Note 12 - 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 13 - Joint Ventures**

In April 1979, the City of Davison, Michigan entered into a joint venture with Davison Township to create the Senior Citizens Authority (the "Authority"). The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and the 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, 2020, the City's contribution to the Senior Citizens Authority was \$4,349.

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

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

In January 1972, the City of Davison, Michigan entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority (the "Fire Authority"). The purpose of the Fire Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Fire Authority is governed by a seven-member board appointed by the governing bodies of the City and the 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 \$975,985 is recorded within the governmental activities column of the statement of net position.

During the year ended June 30, 2020, the City was billed \$160,684 by the Fire Authority. At year end, the City owed \$6,643 to the Fire Authority for fire run services.

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

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

**June 30, 2020**

**Note 13 - Joint Ventures (Continued)**

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

During the year ended June 30, 2020, the City's contribution to Davison Community Enrichment and Recreation was \$25,000.

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## Required Supplemental Information

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Required Supplemental Information  
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,474,500	\$ 1,470,500	\$ 1,460,572	\$ (9,928)
Intergovernmental - State-shared revenue and grants	635,550	607,550	596,327	(11,223)
Charges for services	24,000	24,000	19,087	(4,913)
Fines and forfeitures	10,500	10,500	10,026	(474)
Licenses and permits	12,000	12,000	10,437	(1,563)
Interest and rentals	82,800	80,300	83,890	3,590
Other revenue	202,465	201,965	193,019	(8,946)
<b>Total revenue</b>	<b>2,441,815</b>	<b>2,406,815</b>	<b>2,373,358</b>	<b>(33,457)</b>
<b>Expenditures</b>				
Current services:				
General government:				
Legislative	19,300	25,800	21,993	3,807
Executive	198,620	205,620	198,544	7,076
General office	389,850	341,850	326,437	15,413
Elections	6,850	15,850	12,465	3,385
Treasurer	104,190	106,190	103,941	2,249
Assessing	28,725	29,725	28,902	823
Board of appeals	2,500	500	42	458
Clerk	82,175	86,175	84,141	2,034
Hall and grounds	66,120	96,120	91,361	4,759
Less reimbursement from:				
Local streets	(9,290)	(9,290)	(9,290)	-
Major streets	(27,870)	(27,870)	(27,870)	-
Water	(228,125)	(228,125)	(228,125)	-
Sewer	(228,125)	(228,125)	(228,125)	-
Equipment	(51,095)	(51,095)	(51,095)	-
LDFA	-	(2,500)	(2,500)	-
DDA	(10,000)	(10,000)	(10,000)	-
Public safety:				
Police protection	1,193,760	1,209,760	1,181,214	28,546
Fire protection	155,500	160,500	160,684	(184)
Building and code enforcement	36,425	36,425	35,396	1,029
Public works	508,675	448,375	410,910	37,465
Community and economic development	8,450	10,450	6,675	3,775
Recreation and culture:				
Library	45,330	45,330	34,020	11,310
Parks and recreation	145,750	140,750	129,960	10,790
Senior citizens	4,100	4,400	4,349	51
<b>Total expenditures</b>	<b>2,441,815</b>	<b>2,406,815</b>	<b>2,274,029</b>	<b>132,786</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>99,329</b>	<b>99,329</b>
<b>Fund Balance - Beginning of year</b>	<b>1,267,861</b>	<b>1,267,861</b>	<b>1,267,861</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 1,267,861</b>	<b>\$ 1,267,861</b>	<b>\$ 1,367,190</b>	<b>\$ 99,329</b>

**City of Davison, Michigan**

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

**Year Ended June 30, 2020**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 395,000	\$ 395,000	\$ 402,551	\$ 7,551
Investment income	350	350	401	51
Total revenue	395,350	395,350	402,952	7,602
<b>Expenditures - Current - Highway and streets</b>	210,020	210,020	136,870	73,150
<b>Net Change in Fund Balance</b>	185,330	185,330	266,082	80,752
<b>Fund Balance - Beginning of year</b>	700,005	700,005	700,005	-
<b>Fund Balance - End of year</b>	<u><u>\$ 885,335</u></u>	<u><u>\$ 885,335</u></u>	<u><u>\$ 966,087</u></u>	<u><u>\$ 80,752</u></u>



**City of Davison, Michigan**

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

**Year Ended June 30, 2020**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 147,000	\$ 147,000	\$ 147,607	\$ 607
Investment income	350	350	336	(14)
Total revenue	147,350	147,350	147,943	593
<b>Expenditures - Current - Highway and streets</b>	130,290	130,290	78,500	51,790
<b>Net Change in Fund Balance</b>	17,060	17,060	69,443	52,383
<b>Fund Balance - Beginning of year</b>	480,537	480,537	480,537	-
<b>Fund Balance - End of year</b>	<u><u>\$ 497,597</u></u>	<u><u>\$ 497,597</u></u>	<u><u>\$ 549,980</u></u>	<u><u>\$ 52,383</u></u>

**City of Davison, Michigan**

Required Supplemental Information  
 Budgetary Comparison Schedule - Major Special Revenue Funds (Continued)  
 Refuse Collection Fund

**Year Ended June 30, 2020**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Special assessments	\$ 310,350	\$ 310,350	\$ 310,170	\$ (180)
Interest and rentals	50	50	37	(13)
Total revenue	310,400	310,400	310,207	(193)
<b>Expenditures - Public works</b>	305,750	327,750	325,537	2,213
<b>Net Change in Fund Balances</b>	4,650	(17,350)	(15,330)	2,020
<b>Fund Balances - Beginning of year</b>	38,878	38,878	38,878	-
<b>Fund Balances - End of year</b>	<u><u>\$ 43,528</u></u>	<u><u>\$ 21,528</u></u>	<u><u>\$ 23,548</u></u>	<u><u>\$ 2,020</u></u>

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

	Years Ended June 30					
	2020	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>						
Service cost	\$ 153,651	\$ 170,672	\$ 162,910	\$ 158,862	\$ 156,616	\$ 156,189
Interest	1,048,317	1,010,713	947,829	929,421	875,272	842,204
Changes in benefit terms	(185,042)	(21,274)	-	-	-	-
Differences between expected and actual experience	(4,173)	85,919	437,509	(132,806)	105,084	-
Changes in assumptions	535,150	-	-	-	521,190	-
Benefit payments, including refunds	(797,721)	(737,164)	(794,997)	(659,807)	(641,953)	(553,619)
<b>Net Change in Total Pension Liability</b>	<b>750,182</b>	<b>508,866</b>	<b>753,251</b>	<b>295,670</b>	<b>1,016,209</b>	<b>444,774</b>
<b>Total Pension Liability - Beginning of year</b>	<b>13,426,024</b>	<b>12,917,158</b>	<b>12,163,907</b>	<b>11,868,237</b>	<b>10,852,028</b>	<b>10,407,254</b>
<b>Total Pension Liability - End of year</b>	<b>\$ 14,176,206</b>	<b>\$ 13,426,024</b>	<b>\$ 12,917,158</b>	<b>\$ 12,163,907</b>	<b>\$ 11,868,237</b>	<b>\$ 10,852,028</b>
<b>Plan Fiduciary Net Position</b>						
Contributions - Employer	\$ 600,574	\$ 540,069	\$ 505,329	\$ 431,409	\$ 390,166	\$ 339,648
Contributions - Member	49,296	52,091	50,092	45,748	44,013	48,741
Net investment income (loss)	837,010	(254,591)	786,708	630,729	(85,985)	361,710
Administrative expenses	(14,416)	(12,690)	(12,479)	(12,461)	(12,814)	(13,261)
Benefit payments, including refunds	(797,721)	(737,164)	(794,997)	(659,807)	(641,953)	(553,619)
Other	-	30,200	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>674,743</b>	<b>(382,085)</b>	<b>534,653</b>	<b>435,618</b>	<b>(306,573)</b>	<b>183,219</b>
<b>Plan Fiduciary Net Position - Beginning of year</b>	<b>6,217,520</b>	<b>6,599,605</b>	<b>6,064,952</b>	<b>5,629,334</b>	<b>5,935,907</b>	<b>5,752,688</b>
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 6,892,263</b>	<b>\$ 6,217,520</b>	<b>\$ 6,599,605</b>	<b>\$ 6,064,952</b>	<b>\$ 5,629,334</b>	<b>\$ 5,935,907</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 7,283,943</b>	<b>\$ 7,208,504</b>	<b>\$ 6,317,553</b>	<b>\$ 6,098,955</b>	<b>\$ 6,238,903</b>	<b>\$ 4,916,121</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>48.62 %</b>	<b>46.31 %</b>	<b>51.09 %</b>	<b>49.86 %</b>	<b>47.43 %</b>	<b>54.70 %</b>
<b>Covered Payroll</b>	<b>\$ 953,213</b>	<b>\$ 1,016,077</b>	<b>\$ 948,886</b>	<b>\$ 956,848</b>	<b>\$ 910,098</b>	<b>\$ 946,636</b>
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	<b>764.15 %</b>	<b>709.44 %</b>	<b>665.79 %</b>	<b>637.40 %</b>	<b>685.52 %</b>	<b>519.33 %</b>



Required Supplemental Information

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

	Years Ended June 30					
	2020	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>						
Service cost	\$ 3,168	\$ 3,193	\$ 3,011	\$ 2,944	\$ -	\$ -
Interest	75,851	75,071	72,403	71,026	69,337	70,505
Differences between expected and actual experience	3,291	19,130	8,826	3,702	45,561	13,451
Changes in assumptions	44,108	(4,429)	43,339	(135,820)	-	98,668
Benefit payments, including refunds	(83,123)	(83,123)	(83,123)	(62,321)	(51,921)	(51,921)
<b>Net Change in Total Pension Liability</b>	43,295	9,842	44,456	(120,469)	62,977	130,703
<b>Total Pension Liability - Beginning of year</b>	1,302,584	1,292,742	1,248,286	1,368,755	1,305,778	1,175,075
<b>Total Pension Liability - End of year</b>	<b>\$ 1,345,879</b>	<b>\$ 1,302,584</b>	<b>\$ 1,292,742</b>	<b>\$ 1,248,286</b>	<b>\$ 1,368,755</b>	<b>\$ 1,305,778</b>
<b>Plan Fiduciary Net Position</b>						
Contributions - Employer	\$ 40,800	\$ 46,650	\$ 40,700	\$ 71,850	\$ 40,550	\$ 22,550
Net investment income	2,107	96,110	52,387	86,736	19,765	11,337
Administrative expenses	(11,121)	(8,241)	(8,803)	(33,988)	(39,093)	(15,846)
Benefit payments, including refunds	(83,123)	(83,123)	(83,123)	(62,321)	(51,921)	(51,921)
<b>Net Change in Plan Fiduciary Net Position</b>	(51,337)	51,396	1,161	62,277	(30,699)	(33,880)
<b>Plan Fiduciary Net Position - Beginning of year</b>	1,153,053	1,101,657	1,100,496	1,038,219	1,068,918	1,102,798
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 1,101,716</b>	<b>\$ 1,153,053</b>	<b>\$ 1,101,657</b>	<b>\$ 1,100,496</b>	<b>\$ 1,038,219</b>	<b>\$ 1,068,918</b>
<b>City's Net Pension Liability - Ending</b>	<b>\$ 244,163</b>	<b>\$ 149,531</b>	<b>\$ 191,085</b>	<b>\$ 147,790</b>	<b>\$ 330,536</b>	<b>\$ 236,860</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	81.86 %	88.52 %	85.22 %	88.16 %	75.85 %	81.86 %
<b>Covered Payroll</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>City's Net Pension Liability as a Percentage of Covered Payroll</b>	-	-	-	-	-	-

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

	<b>Last Nine Fiscal Years</b>								
	<b>Years Ended June 30</b>								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Annual money-weighted rate of return, net of investment expense	(0.57)%	8.25 %	4.67 %	8.47 %	1.03 %	1.05 %	3.20 %	13.00 %	11.80 %

Required Supplemental Information  
Schedule of Pension Contributions - Nonunion Pension Plan

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 34,752	\$ 39,165	\$ 34,677	\$ 64,484	\$ 40,506	\$ 22,539	\$ 36,587	\$ 28,960	\$ 16,490	\$ 23,332
Contributions in relation to the actuarially determined contribution	40,800	46,650	40,700	71,850	40,550	22,550	36,590	28,960	36,500	257,652
<b>Contribution Excess</b>	<b>\$ 6,048</b>	<b>\$ 7,485</b>	<b>\$ 6,023</b>	<b>\$ 7,366</b>	<b>\$ 44</b>	<b>\$ 11</b>	<b>\$ 3</b>	<b>\$ -</b>	<b>\$ 20,010</b>	<b>\$ 234,320</b>
<b>Covered Payroll</b>	\$ 145,299	\$ 147,585	\$ 143,135	\$ 119,618	\$ -	\$ -	\$ -	\$ 179,883	\$ 172,365	\$ 268,480
<b>Contributions as a Percentage of Covered Payroll</b>	28.08 %	31.61 %	28.43 %	60.07 %	- %	- %	- %	16.10 %	21.18 %	95.97 %

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

Actuarial valuation information relative to the determination of contributions:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	3.0 years
Asset valuation method	Market value
Inflation	2.25 percent
Salary increase	2.25 percent
Investment rate of return	6.0 percent
Retirement age	Age 60
Mortality	PubG-2010 amount weighted Retiree Mortality tables with generation projection using Scale MP-2018
Other information	The mortality rate assumptions have been updated to the PubG-2010 funding table.

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

	<b>Years Ended June 30</b>		
	2020	2019	2018
<b>Total OPEB Liability</b>			
Service cost	\$ 130,863	\$ 164,824	\$ 147,365
Interest	614,180	593,804	559,825
Changes in benefit terms	-	(65,563)	-
Differences between expected and actual experience	(1,397,941)	-	4,216
Changes in assumptions	297,339	580,030	-
Benefit payments, including refunds	(307,525)	(276,416)	(269,635)
<b>Net Change in Total OPEB Liability</b>	(663,084)	996,679	441,771
<b>Total OPEB Liability - Beginning of year</b>	8,794,294	7,797,615	7,355,844
<b>Total OPEB Liability - End of year</b>	<b>\$ 8,131,210</b>	<b>\$ 8,794,294</b>	<b>\$ 7,797,615</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 366,310	\$ 331,859	\$ 325,494
Net investment income	17,976	20,185	46,113
Administrative expenses	(1,412)	(1,453)	(1,498)
Benefit payments, including refunds	(307,525)	(276,416)	(269,635)
<b>Net Change in Plan Fiduciary Net Position</b>	75,349	74,175	100,474
<b>Plan Fiduciary Net Position - Beginning of year</b>	714,474	640,299	539,825
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 789,823</b>	<b>\$ 714,474</b>	<b>\$ 640,299</b>
<b>Net OPEB Liability - Ending</b>	<b>\$ 7,341,387</b>	<b>\$ 8,079,820</b>	<b>\$ 7,157,316</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	9.71 %	8.12 %	8.21 %
<b>Covered Employee Payroll</b>	\$ 966,850	\$ 1,182,981	\$ 1,117,785
<b>Net OPEB Liability as a Percentage of Covered Employee Payroll</b>	759.31 %	683.01 %	640.31 %



Required Supplemental Information  
Schedule of OPEB Contributions

Last Ten Fiscal Years  
Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 779,915	\$ 863,173	\$ 787,220	\$ 1,551,921	\$ 1,551,921	\$ 1,629,984	\$ 1,391,341	\$ 947,812	\$ 867,468	\$ 897,732
Contributions in relation to the actuarially determined contribution	366,310	331,859	325,494	324,648	324,440	305,050	250,438	261,078	156,146	169,053
<b>Contribution Deficiency</b>	<b>\$ (413,605)</b>	<b>\$ (531,314)</b>	<b>\$ (461,726)</b>	<b>\$ (1,227,273)</b>	<b>\$ (1,227,481)</b>	<b>\$ (1,324,934)</b>	<b>\$ (1,140,903)</b>	<b>\$ (686,734)</b>	<b>\$ (711,322)</b>	<b>\$ (728,679)</b>
<b>Covered Employee Payroll</b>	<b>\$ 966,850</b>	<b>\$ 1,182,981</b>	<b>\$ 1,117,785</b>	<b>\$ 1,126,756</b>	<b>\$ 1,126,983</b>	<b>\$ 1,086,461</b>	<b>\$ 1,138,413</b>	<b>\$ 1,144,442</b>	<b>\$ 1,110,236</b>	<b>\$ 1,167,387</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>37.89 %</b>	<b>28.05 %</b>	<b>29.12 %</b>	<b>28.81 %</b>	<b>28.79 %</b>	<b>28.08 %</b>	<b>22.00 %</b>	<b>22.81 %</b>	<b>14.06 %</b>	<b>14.48 %</b>

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percent
Remaining amortization period	20 years
Asset valuation method	10-year smoothed
Health care cost trend rates	8.25 percent for pre-Medicare grading down 25 basis points each year to an ultimate rate of 4.5 percent in year 2035; 6.50 percent for post-Medicare grading down 25 basis points each year to an ultimate rate of 4.5 percent in year 2028; 5 percent per year for dental
Salary increase	4.00 percent
Investment rate of return	7.00 percent
Retirement age	60 years old
Mortality	1. PubG-2010 Mortality Tables with generational projection using Scale MP-2018 2. Separate rates for employees and retirees 3. Separate rates for males and females
Other information	None

***Budgetary Information***

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

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

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire Department	\$ 160,500	\$ 160,684	\$ (184)

***Pension Information***

**Benefit Changes**

In the fiscal year ended June 30, 2020, there were changes of benefit terms for the union and supervisors pension plan related to the benefit multiplier for one division.

In the fiscal year ended June 30, 2020, there were changes of benefit terms for the union and supervisors pension plan related to the early retirement age and years of service for one division.

**Changes in Assumptions**

In the fiscal year ended June 30, 2020 (December 31, 2019 valuation), there were assumption changes that resulted in an increase in the calculated total pension liability for the union and supervisors pension plan. The assumptions changed during the year related to the investment rate of return.

In the fiscal year ended June 30, 2016 (December 31, 2015 valuation), there were assumption changes that resulted in an increase in the calculated total pension liability for the union and supervisors pension plan. The assumptions changed during the year related to the investment rate of return, discount rate, and mortality tables.

***OPEB Information***

**Benefit Changes**

In the fiscal year ended June 30, 2019, there were changes of benefit terms related to retirement eligibility.

**Changes in Assumptions**

In the fiscal year ended June 30, 2020, there were assumption changes that resulted in an increase in the calculated total OPEB liability. The assumptions changed during the year related to the health care trend rate and the mortality tables.

In the fiscal year ended June 30, 2019, there were assumption changes that resulted in an increase in the calculated total OPEB liability. The assumptions changed during the year related to the discount rate and the health care trend rate.