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# City of Buchanan, Michigan

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

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-5
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	6
Statement of Activities	7-8
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	9
Reconciliation of the Balance Sheet to the Statement of Net Position	10
Statement of Revenue, Expenditures, and Changes in Fund Balances	11
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	12
Proprietary Funds:	
Statement of Net Position	13
Statement of Revenue, Expenses, and Changes in Net Position	14
Statement of Cash Flows	15
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	16
Component Units:	
Statement of Net Position	17
Statement of Activities	18
Notes to Financial Statements	19-37
<b>Required Supplemental Information</b>	38
Budgetary Comparison Schedule - General Fund	39
Budgetary Comparison Schedule - Major Special Revenue Funds	40-42
Schedule of Changes in the Net Pension Liability and Related Ratios	43
Schedule of Pension Contributions	44
Notes to Required Supplemental Information	45
<b>Other Supplemental Information</b>	46
Nonmajor Governmental Funds:	
Combining Balance Sheet	47
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	48
Fiduciary Funds - Combining Statement of Assets and Liabilities	49

## **Independent Auditor's Report**

To the City Commission  
City of Buchanan, 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 Buchanan, Michigan (the "City") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise City of Buchanan, Michigan's basic financial statements, as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buchanan, Michigan as of June 30, 2018 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the City Commission  
City of Buchanan, Michigan

**Required Supplemental Information**

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

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Buchanan, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

*Plante & Moran, PLLC*

October 25, 2018

As management of City of Buchanan, Michigan's (the "City"), we offer readers this narrative overview and analysis of the financial activities for the year ended June 30, 2018.

**Financial Highlights**

- The City paid off approximately \$285,000 in long-term debt and capital lease payments in the current year.
- The City was awarded the SAW grant and received approximately \$326,000 of grant dollars in the current year.
- The City completed a resurfacing project of approximately \$585,000, with \$173,000 of the project paid by the City, and the remainder funded through federal grants.

**Using this Annual Report**

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

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

**City's Net Position**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current and other assets:						
Cash and investments	\$ 3,972,402	\$ 3,333,233	\$ 1,276,304	\$ 923,988	\$ 5,248,706	\$ 4,257,221
Receivables:						
Receivables	317,686	319,937	242,015	301,937	559,701	621,874
Due from component units	40,000	-	-	-	40,000	-
Internal balances	254,024	292,152	(254,024)	(292,152)	-	-
Other assets	309,955	18,975	708,226	361,768	1,018,181	380,743
Capital assets	4,518,085	5,072,486	9,589,535	9,984,094	14,107,620	15,056,580
Total assets	9,412,152	9,036,783	11,562,056	11,279,635	20,974,208	20,316,418
<b>Deferred Outflows of Resources</b>	35,396	225,273	43,262	275,335	78,658	500,608
<b>Liabilities</b>						
Current liabilities	130,811	137,374	131,518	202,278	262,329	339,652
Noncurrent liabilities	172,283	175,709	2,741,045	3,000,431	2,913,328	3,176,140
Total liabilities	303,094	313,083	2,872,563	3,202,709	3,175,657	3,515,792
<b>Deferred Inflows of Resources</b>	232,310	168,253	181,971	104,229	414,281	272,482
<b>Net Position</b>						
Net investment in capital assets	4,497,065	5,054,375	6,889,535	7,029,094	11,386,600	12,083,469
Restricted	1,021,755	839,651	343,839	338,576	1,365,594	1,178,227
Unrestricted	3,393,324	2,886,694	1,317,410	880,362	4,710,734	3,767,056
Total net position	<b>\$ 8,912,144</b>	<b>\$ 8,780,720</b>	<b>\$ 8,550,784</b>	<b>\$ 8,248,032</b>	<b>\$ 17,462,928</b>	<b>\$ 17,028,752</b>

The City's combined net position increased 2.55 percent from a year ago, increasing from \$17,028,752 to \$17,462,928.

## City of Buchanan, Michigan

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

As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net position increased by 1.50 percent, from \$8,780,720 to \$8,912,144, while business-type activities increased by 3.67 percent, from \$8,248,032 to \$8,550,784.

#### City's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 213,627	\$ 130,607	\$ 2,181,307	\$ 2,059,517	\$ 2,394,934	\$ 2,190,124
Operating grants	654,122	766,927	-	-	654,122	766,927
Capital grants	67,040	439,798	436,185	326,166	503,225	765,964
General revenue:						
Property taxes	1,685,527	1,632,916	-	-	1,685,527	1,632,916
Intergovernmental	716,924	649,250	-	-	716,924	649,250
Investment earnings	43,116	14,569	10,110	1,255	53,226	15,824
Other revenue:						
Cable franchise fees	51,648	53,529	-	-	51,648	53,529
Sale of capital assets	13,399	9,315	-	-	13,399	9,315
Other miscellaneous income	163,528	130,559	-	-	163,528	130,559
Total revenue	3,608,931	3,827,470	2,627,602	2,386,938	6,236,533	6,214,408
<b>Expenses</b>						
General government	520,992	539,312	-	-	520,992	539,312
Public safety	1,197,652	1,152,867	-	-	1,197,652	1,152,867
Public works	1,653,174	1,541,667	-	-	1,653,174	1,541,667
Economic development	-	78,897	-	-	-	78,897
Recreation and culture	83,716	99,468	-	-	83,716	99,468
Debt service	5,633	3,076	-	-	5,633	3,076
Water and Sewer	-	-	2,341,190	2,286,199	2,341,190	2,286,199
Total expenses	3,461,167	3,415,287	2,341,190	2,286,199	5,802,357	5,701,486
<b>Transfers</b>	(16,340)	(55,957)	16,340	55,957	-	-
<b>Change in Net Position</b>	131,424	356,226	302,752	156,696	434,176	512,922
<b>Net Position - Beginning of year</b>	8,780,720	8,424,494	8,248,032	8,091,336	17,028,752	16,515,830
<b>Net Position - End of year</b>	<b>\$ 8,912,144</b>	<b>\$ 8,780,720</b>	<b>\$ 8,550,784</b>	<b>\$ 8,248,032</b>	<b>\$ 17,462,928</b>	<b>\$ 17,028,752</b>

During the past fiscal year, governmental activities revenue decreased from \$3,827,470 to \$3,608,931, a decrease of 5.71 percent, primarily due to a decrease in capital grants. Governmental expenses increased during the year from \$3,415,287 to \$3,461,167, an increase of 1.34 percent, primarily in the public works department.

Within business-type activities, charges for water, sewer, and ready-to-serve revenue increased approximately \$121,790 during the 2018 fiscal year due to a rate increase, from \$2,059,517 to \$2,181,307. Business-type expenses increased by 2.41 percent from \$2,286,199 to \$2,341,190 due to expenses incurred in the current year related to the preliminary study of the City's sewer system. The City also received grant dollars in the current year related to the SAW grant, which offset some of these additional expenses. This preliminary study will be used to determine the necessary repairs to the sewer lines.

#### Governmental Activities

- In July 2017, the City purchased a 2017 Ford F-250 super cab for the wastewater plant in the amount of \$26,598.
- In August 2017, the City purchased a 2017 police squad car on a three-year lease agreement for \$32,485.
- In September 2017, the City paid Berrien County Road Commission \$28,689 to chip and seal city streets that needed repairs.

## City of Buchanan, Michigan

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

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- In December 2017, the City approved the River Street traffic signal project, work is expected to begin summer/fall of 2018.
- An ongoing project for the City is to move the department of public works and possibly the fire station to the River Street parcel purchased in 2015 and split the remaining parcel into buildable sites for light industrial businesses.
- Continuing with the water meter replacement program, the City purchased \$17,943 in new meters; most have been installed in homes and businesses.
- In September 2017, Moccasin Street water tower was painted, at a cost of \$88,582.

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

The Water and Sewer Fund experienced an increase of approximately \$303,000 in net position. The City is looking at future bonding plans to improve the wastewater plant. The City Commission adopted a new rate policy from a rate study conducted by a third-party consulting firm that was performed in a prior year.

#### **Component Units**

Component units include the Downtown Development Authority and the Brownfield Redevelopment Authority. Effective December 1, 2006, Andrews Farm TIF and DDA TIF were dissolved, and the Downtown Development Authority began capturing taxes in 2007.

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

The General Fund pays for most of the City's governmental services. The primary services provided include police and fire services, administrative services, public services and parks and recreation.

As shown in the required supplemental information, the City budgeted operational expenditures of \$2,235,291 of expenditures to be paid from General Fund fund balance. During the course of the year, the City amended the budget to \$2,425,271. The actual operating expenses were \$2,207,459, and actual revenue collected was \$2,371,415. There were no significant budget to actual differences.

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

The City continued making payments on revenue and general obligation bonds incurred to construct major capital related to infrastructure.

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

The City's budget for the next fiscal year reflects a similar budget as last year, with the City trying to complete the projects on the books while maintaining a healthy fund balance. Current economic conditions in the state of Michigan have put personal property tax revenue at risk of being reduced. The City Commission has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

#### **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 manager's office.

June 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 73,525	\$ 23,328	\$ 96,853	\$ 7,033
Investments (Note 3)	3,898,877	1,252,976	5,151,853	266,052
Receivables:				
Property taxes receivable	7,365	-	7,365	-
Customer receivables	-	206,242	206,242	-
Other receivables	121,601	1,624	123,225	15,029
Due from other governments	188,720	34,149	222,869	-
Due from component units	40,000	-	40,000	-
Internal balances	254,024	(254,024)	-	-
Prepaid expenses	17,031	6,369	23,400	-
Restricted cash (Note 3)	-	343,839	343,839	-
Net pension asset (Note 9)	292,924	358,018	650,942	-
Capital assets: (Note 4)				
Assets not subject to depreciation	347,068	40,776	387,844	-
Assets subject to depreciation - Net	4,171,017	9,548,759	13,719,776	-
<b>Total assets</b>	<b>9,412,152</b>	<b>11,562,056</b>	<b>20,974,208</b>	<b>288,114</b>
<b>Deferred Outflows of Resources</b> - Deferred outflows related to pensions (Note 9)	35,396	43,262	78,658	-
<b>Liabilities</b>				
Accounts payable	88,696	64,546	153,242	2,559
Due to other governmental units	2,018	-	2,018	-
Due to primary government	-	-	-	40,000
Accrued liabilities and other	17,420	22,700	40,120	-
Unearned revenue	22,677	-	22,677	-
Customer deposits	-	44,272	44,272	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	71,950	14,813	86,763	-
Capital leases (Note 6)	10,204	-	10,204	-
Current portion of long-term debt	-	270,000	270,000	-
Due in more than one year:				
Compensated absences (Note 7)	79,313	26,232	105,545	-
Capital leases (Note 6)	10,816	-	10,816	-
Long-term debt (Note 7)	-	2,430,000	2,430,000	-
<b>Total liabilities</b>	<b>303,094</b>	<b>2,872,563</b>	<b>3,175,657</b>	<b>42,559</b>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for the following year	83,424	-	83,424	-
Deferred inflows related to pensions (Note 9)	148,886	181,971	330,857	-
<b>Total deferred inflows of resources</b>	<b>232,310</b>	<b>181,971</b>	<b>414,281</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	4,497,065	6,889,535	11,386,600	-
Restricted:				
Streets and highways	908,546	-	908,546	-
Debt service	-	343,839	343,839	-
Small cities grant program	342	-	342	-
Dial-A-Ride program	112,867	-	112,867	-
Economic development	-	-	-	245,555
Unrestricted	3,393,324	1,317,410	4,710,734	-
<b>Total net position</b>	<b>\$ 8,912,144</b>	<b>\$ 8,550,784</b>	<b>\$ 17,462,928</b>	<b>\$ 245,555</b>



# City of Buchanan, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 520,992	\$ 94,233	\$ -	\$ -
Public safety	1,197,652	44,623	-	-
Public works	1,653,174	74,771	608,822	-
Recreation and culture	83,716	-	45,300	67,040
Interest on long-term debt	5,633	-	-	-
Total governmental activities	3,461,167	213,627	654,122	67,040
Business-type activities - Water and Sewer Fund	2,341,190	2,181,307	-	436,185
Total primary government	<b>\$ 5,802,357</b>	<b>\$ 2,394,934</b>	<b>\$ 654,122</b>	<b>\$ 503,225</b>
Component units:				
Downtown Development Authority	\$ 93,537	\$ 11,465	\$ -	\$ -
Brownfield Redevelopment Authority	5,356	-	-	-
Total component units	<b>\$ 98,893</b>	<b>\$ 11,465</b>	<b>\$ -</b>	<b>\$ -</b>

General revenue:

- Property taxes and administrative fees
- State-shared revenue
- Unrestricted investment income
- Cable franchise fees
- Gain on sale of capital assets
- Other miscellaneous income

Total general revenue

**Transfers**

**Change in Net Position**

**Net Position** - Beginning of year

**Net Position** - End of year

# Statement of Activities

**Year Ended June 30, 2018**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (426,759)	\$ -	\$ (426,759)	\$ -
(1,153,029)	-	(1,153,029)	-
(969,581)	-	(969,581)	-
28,624	-	28,624	-
(5,633)	-	(5,633)	-
(2,526,378)	-	(2,526,378)	-
-	276,302	276,302	-
(2,526,378)	276,302	(2,250,076)	-
-	-	-	(82,072)
-	-	-	(5,356)
-	-	-	(87,428)
1,685,527	-	1,685,527	78,443
716,924	-	716,924	-
43,116	10,110	53,226	2,467
51,648	-	51,648	-
13,399	-	13,399	-
163,528	-	163,528	50
2,674,142	10,110	2,684,252	80,960
(16,340)	16,340	-	-
131,424	302,752	434,176	(6,468)
8,780,720	8,248,032	17,028,752	252,023
<b>\$ 8,912,144</b>	<b>\$ 8,550,784</b>	<b>\$ 17,462,928</b>	<b>\$ 245,555</b>

**City of Buchanan, Michigan**

**Governmental Funds  
Balance Sheet**

**June 30, 2018**

	General Fund	Capital Projects Fund	Major Streets Fund	Street Repair and Maintenance Fund	Dial-A-Ride	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents (Note 3)	\$ 29,740	\$ 3,529	\$ 4,152	\$ 2,345	\$ 24,884	\$ 8,875	\$ 73,525
Investments (Note 3)	1,787,478	754,571	323,176	186,644	179,051	667,957	3,898,877
Receivables:							
Property taxes receivable	-	-	-	-	7,365	-	7,365
Other receivables	120,890	-	-	-	-	711	121,601
Due from other governments	98,561	-	64,470	-	4,068	21,621	188,720
Due from component units	-	40,000	-	-	-	-	40,000
Due from other funds	4,124	-	23,055	-	-	-	27,179
Advances to other funds	254,024	-	-	-	-	130,600	384,624
Prepaid expenses	12,856	-	2,155	-	-	2,020	17,031
<b>Total assets</b>	<b>\$ 2,307,673</b>	<b>\$ 798,100</b>	<b>\$ 417,008</b>	<b>\$ 188,989</b>	<b>\$ 215,368</b>	<b>\$ 831,784</b>	<b>\$ 4,758,922</b>
<b>Liabilities</b>							
Accounts payable	\$ 65,256	\$ 272	\$ 4,308	\$ -	\$ 17,059	\$ 1,801	\$ 88,696
Due to other governmental units	-	-	-	-	2,018	-	2,018
Due to other funds	-	-	-	27,179	-	-	27,179
Advances from other funds	130,600	-	-	-	-	-	130,600
Accrued liabilities and other	14,829	-	1,314	-	-	1,277	17,420
Unearned revenue	-	-	-	-	-	22,677	22,677
<b>Total liabilities</b>	<b>210,685</b>	<b>272</b>	<b>5,622</b>	<b>27,179</b>	<b>19,077</b>	<b>25,755</b>	<b>288,590</b>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue	112,667	-	-	-	-	-	112,667
Property taxes levied for the following year	-	-	-	-	83,424	-	83,424
<b>Total deferred inflows of resources</b>	<b>112,667</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,424</b>	<b>-</b>	<b>196,091</b>
<b>Fund Balances</b>							
Nonspendable:							
Prepays	12,856	-	2,155	-	-	2,020	17,031
Advances to other funds	254,024	-	-	-	-	-	254,024
Restricted:							
Major streets	-	-	409,231	-	-	-	409,231
Local streets	-	-	-	-	-	495,140	495,140
Dial-A-Ride	-	-	-	-	112,867	-	112,867
Small cities	-	-	-	-	-	342	342
Committed:							
Street repair	-	-	-	161,810	-	-	161,810
Oakridge cemetery	-	-	-	-	-	308,527	308,527
Assigned:							
Municipal complex	45,890	-	-	-	-	-	45,890
Capital projects	-	797,828	-	-	-	-	797,828
Unassigned	1,671,551	-	-	-	-	-	1,671,551
<b>Total fund balances</b>	<b>1,984,321</b>	<b>797,828</b>	<b>411,386</b>	<b>161,810</b>	<b>112,867</b>	<b>806,029</b>	<b>4,274,241</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 2,307,673</b>	<b>\$ 798,100</b>	<b>\$ 417,008</b>	<b>\$ 188,989</b>	<b>\$ 215,368</b>	<b>\$ 831,784</b>	<b>\$ 4,758,922</b>

**Governmental Funds**

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

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**June 30, 2018**

<b>Fund Balances Reported in Governmental Funds</b>	\$ 4,274,241
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	4,518,085
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	112,667
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(21,020)
Some employee fringe benefits 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:	
Employee compensated absences	(151,263)
Pension benefits	179,434
<b>Net Position of Governmental Activities</b>	<b><u>\$ 8,912,144</u></b>

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

Year Ended June 30, 2018

	General Fund	Capital Projects Fund	Major Streets Fund	Street Repair and Maintenance Fund	Dial-A-Ride	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>							
Taxes:							
Property taxes	\$ 1,186,749	\$ 42,900	\$ -	\$ 333,790	\$ 80,083	\$ -	\$ 1,643,522
Administration fees	42,005	-	-	-	-	-	42,005
Intergovernmental:							
Federal grants	-	-	-	-	24,542	-	24,542
State-shared revenue and grants	722,873	-	413,618	-	81,024	126,419	1,343,934
Charges for services	80,125	-	-	-	12,526	-	92,651
Licenses and permits:							
Cable franchise fees	51,648	-	-	-	-	-	51,648
Business licenses	41,362	-	-	-	-	-	41,362
Other licenses and permits	74,372	-	-	-	-	-	74,372
Investment income and rentals	22,395	5,848	2,569	1,671	525	10,108	43,116
Other revenue	149,886	77,870	2,018	-	3,618	4,988	238,380
<b>Total revenue</b>	<b>2,371,415</b>	<b>126,618</b>	<b>418,205</b>	<b>335,461</b>	<b>202,318</b>	<b>141,515</b>	<b>3,595,532</b>
<b>Expenditures</b>							
Current services:							
General government	500,479	6,967	-	-	-	-	507,446
Public safety	1,168,034	2,925	-	-	-	-	1,170,959
Public works	459,201	12,140	266,114	27,179	191,814	272,003	1,228,451
Recreation and culture	10,036	11,040	-	-	-	-	21,076
Debt service	35,209	-	-	-	-	-	35,209
<b>Total expenditures</b>	<b>2,172,959</b>	<b>33,072</b>	<b>266,114</b>	<b>27,179</b>	<b>191,814</b>	<b>272,003</b>	<b>2,963,141</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>198,456</b>	<b>93,546</b>	<b>152,091</b>	<b>308,282</b>	<b>10,504</b>	<b>(130,488)</b>	<b>632,391</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in (Note 5)	126,950	34,500	-	-	-	141,673	303,123
Transfers out (Note 5)	(34,500)	-	-	(278,813)	-	(6,150)	(319,463)
New debt issued	32,485	-	-	-	-	-	32,485
Sale of capital assets	11,043	-	-	-	11,022	-	22,065
<b>Total other financing sources (uses)</b>	<b>135,978</b>	<b>34,500</b>	<b>-</b>	<b>(278,813)</b>	<b>11,022</b>	<b>135,523</b>	<b>38,210</b>
<b>Net Change in Fund Balances</b>	<b>334,434</b>	<b>128,046</b>	<b>152,091</b>	<b>29,469</b>	<b>21,526</b>	<b>5,035</b>	<b>670,601</b>
<b>Fund Balances - Beginning of year</b>	<b>1,649,887</b>	<b>669,782</b>	<b>259,295</b>	<b>132,341</b>	<b>91,341</b>	<b>800,994</b>	<b>3,603,640</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,984,321</b>	<b>\$ 797,828</b>	<b>\$ 411,386</b>	<b>\$ 161,810</b>	<b>\$ 112,867</b>	<b>\$ 806,029</b>	<b>\$ 4,274,241</b>

**Governmental Funds**

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

**Year Ended June 30, 2018**

<b>Net Change in Fund Balance Reported in Governmental Funds</b>	<b>\$ 670,601</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	108,554
Depreciation expense	(662,955)
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	(8,666)
Issuing debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(32,485)
Repayment of capital leases is an expenditure in the governmental funds, but not in the statement of activities (where it reduces capital leases)	29,576
Some employee costs (pension and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	26,799
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 131,424</u></b>

Proprietary Funds  
Statement of Net Position

June 30, 2018

	<u>Water and Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 23,328
Investments (Note 3)	1,252,976
Receivables	242,015
Prepaid expenses	<u>6,369</u>
Total current assets	1,524,688
Noncurrent assets:	
Restricted cash (Note 3)	343,839
Net pension asset (Note 9)	358,018
Capital assets: (Note 4)	
Assets not subject to depreciation	40,776
Assets subject to depreciation - Net	<u>9,548,759</u>
Total noncurrent assets	<u>10,291,392</u>
Total assets	11,816,080
<b>Deferred Outflows of Resources</b> - Deferred inflows related to pensions (Note 9)	43,262
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	64,546
Accrued liabilities and other	22,700
Customer deposits	44,272
Compensated absences (Note 7)	14,813
Current portion of long-term debt (Note 7)	<u>270,000</u>
Total current liabilities	416,331
Noncurrent liabilities:	
Advances from other funds (Note 5)	254,024
Compensated absences (Note 7)	26,232
Long-term debt (Note 7)	<u>2,430,000</u>
Total noncurrent liabilities	<u>2,710,256</u>
Total liabilities	3,126,587
<b>Deferred Inflows of Resources</b> - Deferred inflows related to pensions (Note 9)	<u>181,971</u>
<b>Net Position</b>	
Net investment in capital assets	6,889,535
Restricted - Debt service	343,839
Unrestricted	<u>1,317,410</u>
Total net position	<u><u>\$ 8,550,784</u></u>

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

**Year Ended June 30, 2018**

	Water and Sewer Fund
<b>Operating Revenue</b>	
Sale of water	\$ 438,471
Sewage disposal charges	631,532
Ready to serve	546,379
Interest and penalty charges	38,769
Other operating revenue	526,156
Total operating revenue	2,181,307
<b>Operating Expenses</b>	
Cost of water	528,576
Cost of sewage treatment	1,160,197
Depreciation	561,758
Total operating expenses	2,250,531
<b>Operating Loss</b>	(69,224)
<b>Nonoperating Revenue (Expense)</b>	
Investment income	10,110
Interest expense	(90,659)
Total nonoperating expense	(80,549)
<b>Loss - Before capital contributions</b>	(149,773)
<b>Capital Contributions - Capital grants</b>	436,185
<b>Transfers In (Note 5)</b>	22,140
<b>Transfers Out (Note 5)</b>	(5,800)
<b>Change in Net Position</b>	302,752
<b>Net Position - Beginning of year</b>	8,248,032
<b>Net Position - End of year</b>	<b>\$ 8,550,784</b>



Proprietary Funds  
Statement of Cash Flows

Year Ended June 30, 2018

	Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 2,192,250
Payments to suppliers	(995,790)
Payments to employees and fringes	(798,311)
	<u>398,149</u>
Net cash provided by operating activities	398,149
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers from other funds	22,140
Transfers to other funds	(5,800)
Repayments of loans from other funds	(38,128)
	<u>(21,788)</u>
Net cash used in noncapital financing activities	(21,788)
<b>Cash Flows from Capital and Related Financing Activities</b>	
Receipt of capital grants	485,897
Purchase of capital assets	(167,199)
Principal and interest paid on capital debt	(347,590)
	<u>(28,892)</u>
Net cash used in capital and related financing activities	(28,892)
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	10,110
Purchases of investment securities	(509,962)
	<u>(499,852)</u>
Net cash used in investing activities	(499,852)
<b>Net Decrease in Cash</b>	(152,383)
<b>Cash - Beginning of year</b>	<u>175,711</u>
<b>Cash - End of year</b>	<u><u>\$ 23,328</u></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating loss	\$ (69,224)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	561,758
Pension recovery	(25,011)
Changes in assets and liabilities:	
Receivables and other assets	4,574
Accounts payable, customer deposits, and accrued liabilities	(69,894)
Accrued and other liabilities	(4,054)
	<u>467,373</u>
Total adjustments	467,373
Net cash provided by operating activities	<u><u>\$ 398,149</u></u>

**Noncash Investing, Capital, and Financing Activities** - The City had approximately \$34,000 of capital grants included in accounts receivable at year end.

Fiduciary Funds  
Statement of Fiduciary Assets and Liabilities

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**June 30, 2018**

	<u>Agency Funds</u>
<b>Assets - Cash and cash equivalents (Note 3)</b>	<b>\$ 51,477</b>
<b>Liabilities</b>	
Due to other governmental units	\$ 100
Other liabilities	<u>51,377</u>
Total liabilities	<b>\$ 51,477</b>

**Component Units  
Statement of Net Position**

**June 30, 2018**

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 5,144	\$ 1,889	\$ 7,033
Investments (Note 3)	208,794	57,258	266,052
Notes receivable	15,029	-	15,029
Total assets	228,967	59,147	288,114
<b>Liabilities</b>			
Accounts payable	2,559	-	2,559
Due to primary government (Note 5)	40,000	-	40,000
Total liabilities	42,559	-	42,559
<b>Net Position - Restricted</b>	<b>\$ 186,408</b>	<b>\$ 59,147</b>	<b>\$ 245,555</b>

**City of Buchanan, Michigan**

**Component Units  
Statement of Activities**

**Year Ended June 30, 2018**

	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Functions/Programs</b>							
Downtown Development Authority	\$ 93,537	\$ 11,465	\$ -	\$ -	\$ (82,072)	\$ -	\$ (82,072)
Brownfield Redevelopment Authority	5,356	-	-	-	-	(5,356)	(5,356)
<b>Total</b>	<b>\$ 98,893</b>	<b>\$ 11,465</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(82,072)</b>	<b>(5,356)</b>	<b>(87,428)</b>
General revenue:							
Property taxes					63,512	14,931	78,443
Unrestricted investment income					2,018	449	2,467
Other miscellaneous income					50	-	50
<b>Total general revenue</b>					<b>65,580</b>	<b>15,380</b>	<b>80,960</b>
<b>Change in Net Position</b>					<b>(16,492)</b>	<b>10,024</b>	<b>(6,468)</b>
<b>Net Position - Beginning of year</b>					<b>202,900</b>	<b>49,123</b>	<b>252,023</b>
<b>Net Position - End of year</b>					<b>\$ 186,408</b>	<b>\$ 59,147</b>	<b>\$ 245,555</b>

**Note 1 - Significant Accounting Policies**

***Accounting and Reporting Principles***

The City follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the City:

***Reporting Entity***

The City is governed by an elected five-member commission. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the City's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the City. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

***Blended Component Units***

The City's Dial-A-Ride Fund is governed by the City Commission. Although it is legally separate from the City, the Dial-A-Ride Fund is reported as if it were part of the primary government because it is governed by the same legislative authority. This fund is shown on the basis of its fiscal year end of September 30, 2017. The September 30 year end is the fiscal year end of the grant programs from which the Dial-A-Ride Fund receives federal funding.

***Discretely Presented Component Units***

***Downtown Development Authority***

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of eight individuals, is selected by the City Commission. In addition, the DDA's budget is subject to approval by the City Commission.

***Brownfield Redevelopment Authority***

The Brownfield Redevelopment Authority (BRA) was created to clean up the State of Michigan-designated Brownfield sites within the City of Buchanan, Michigan and prepare these sites for new development. The BRA's governing body, which consists of five individuals, is selected by the City Commission. In addition, the BRA's budget is subject to approval by the City Commission.

***Jointly Governed Organization***

The Southeast Berrien County Landfill Authority (the "Authority") is a joint venture of the cities of Buchanan, Michigan and Niles, Michigan and the townships of Bertrand, Buchanan, and Niles. The Authority was created pursuant to Act 233, Michigan Public Acts of 1955. The Authority's allowed purpose is to acquire and operate a solid waste disposal facility. Southeast Berrien County Landfill Authority provides solid waste disposal services to the participating municipalities in Berrien County, Michigan and to companies in northern Indiana. The City of Buchanan, Michigan does not have an equity interest in the Southeast Berrien County Landfill Authority.

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

***Report Presentation***

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, 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, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

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 Capital Projects Fund accounts for assets being accumulated for future capital expenditures and other large projects.
- The Major Streets Fund is a special revenue fund that accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.
- The Street Repair and Maintenance Fund is a special revenue fund that accounts for the property tax revenue, which is restricted for use on street repairs and maintenance.
- The Dial-A-Ride Fund is a special revenue fund that accounts for the revenue related to providing bus services.

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

**Proprietary Funds**

Proprietary funds can 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 and Sewer Fund is used to account for the provision of services to citizens that are financed primarily by user charges for the provision of those services.

**Fiduciary Funds**

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

- The Trust and Agency Fund
- The Tax Collection Fund

**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 funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

**Basis of Accounting**

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

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 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, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

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

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

***Specific Balances and Transactions***

**Cash and Cash Equivalents**

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

**Investments**

Investments are reported at fair value or estimated fair value. Pooled investment income from the General Fund, special revenue funds, and enterprise funds is generally allocated to each fund using a weighted average.

**Receivables and Payables**

In general, outstanding balances between funds are reported as "due 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 allowance for uncollectible amounts.

**Restricted Assets**

The revenue bonds of the Water and Sewer Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted cash.

**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.

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

Capital Asset Class	Depreciable Life - Years
Roads and sidewalks	20
Water and sewer distribution systems	15-100
Buildings and improvements	10-50
Machinery and equipment	5-25
Vehicles	3-25
Office furnishings and equipment	3-10



**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 lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports one item that qualifies for reporting in this category, deferred outflows of resources related to the defined benefit pension plan, which is reported in the government-wide financial statements and the Water and Sewer Fund.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City reports three types of deferred inflows. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from accounts receivables to be received outside of the revenue recognition period. These receivables are deferred and recognized as an inflow of resources in the period that the amounts become available. A second item, property taxes received in advance of the period levied, is reported as deferred inflows of resources in the government-wide statement of net position and governmental funds balance sheet. Lastly, the government-wide statements report deferred inflows of resources related to the defined benefit pension plan.

**Net Position**

Net position of the City is classified in three components. Net investment in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable and nonexpendable. Expendable restricted net position has been limited for use by donors and as held in trust for debt service and self-insured professional liability. Nonexpendable restricted net position has been restricted by donors to be maintained in perpetuity. 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 (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Note 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 government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

**Fund Balance Policies**

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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. The City has, by resolution, authorized the City Treasury to assign fund balance. The City Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. 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.

**Property Tax Revenue**

Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. The taxes are due on September 15 with a final collection date of February 28 before they are added to the county tax roles.

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

The 2017 taxable valuation of the City totaled approximately \$86 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 17.600 mills for operating purposes (13.1000 mills are allocated to the General Fund, 0.5000 mills are allocated to the Capital Projects Fund, and 4.0000 mills are allocated to the Street Repair and Maintenance Fund) and 1.0000 mills for the Dial-A-Ride Fund. This resulted in approximately \$1,460,000 for operating and \$80,000 for transportation services. These amounts are recognized in the respective General Fund, Street Repair and Maintenance Fund, Capital Projects Fund, and Dial-A-Ride Fund financial statements as property tax revenue.

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

**Pension**

The City offers a defined benefit pension plan to its employees. The City records a net pension asset 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 asset, 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.

**Compensated Absences (Vacation and Sick Leave)**

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the City will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation (the General Fund and the Water and Sewer Fund, primarily) are used to liquidate the obligations.

**Proprietary Funds Operating Classification**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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.

**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 November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2019.

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

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

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2019.

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 are effective for the City's financial statements for the June 30, 2021 fiscal year.

**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 since January 1, 2000 is as follows:

Shortfall at July 1, 2017	\$ (447,461)
Current year building permit revenue	41,362
Related expenses - Direct costs	<u>(33,340)</u>
Cumulative shortfall at June 30, 2018	<u>\$ (439,439)</u>

**Note 3 - Deposits and Investments**

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

The City has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority, as listed above. The City's deposits and investments are in accordance with statutory authority.

June 30, 2018

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

The investments held by the City's component units are commingled with the primary government's investments shown 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 approximately \$10,000 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At June 30, 2018, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Investment Type	Fair Value	How Held
Governmental agencies	\$ 2,274,149	Counterparty's trust department
Municipal bonds	345,672	Counterparty's trust department
Money market	3,097,864	Counterparty's trust department

**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.

At year end, the City's average maturities of investments are as follows:

Investment Type	Fair Value	Weighted-average Maturity (Years)
Government agencies	\$ 2,274,149	0.87
Municipal bonds	345,672	1.70

**Credit Risk**

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

Investment Type	Fair Value	Rating	Rating Organization
Government agencies	\$ 1,976,367	AAA	S&P/Moody's
Government agencies	297,782	AA	S&P
Municipal bonds	345,672	AA	S&P

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

**Concentration of Credit Risk**

The City places no limit on the amount it may invest in any one issuer. More than 5 percent of the City's investments are in the following investments:

Investment Type	Fair Value
U.S. Treasury notes	\$ 1,680,087
Federal Home Loan Mortgage Corporation	397,962
Investment Type	Percent
U.S. Treasury notes	31.01 %
Federal Home Loan Mortgage Corporation	7.35

**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 or liabilities; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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

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

- Government agencies and municipal bonds in the amount of \$2,619,821 are valued using Level 2 inputs.

The fair value of government agencies and municipal bonds at June 30, 2018 was determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using other inputs, such as a interest rates, yield curves, and investment statements provided by the broker.

June 30, 2018

**Note 4 - Capital Assets**

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

**Governmental Activities**

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 319,889	\$ -	\$ -	\$ 319,889
Construction in progress	-	27,179	-	27,179
Subtotal	319,889	27,179	-	347,068
Capital assets being depreciated:				
Roads and sidewalks	11,850,187	-	-	11,850,187
Buildings and improvements	2,281,263	5,325	-	2,286,588
Machinery and equipment	1,713,359	28,972	-	1,742,331
Vehicles	1,324,520	40,525	-	1,365,045
Office furnishings and equipment	64,697	6,553	-	71,250
Subtotal	17,234,026	81,375	-	17,315,401
Accumulated depreciation:				
Roads and sidewalks	9,515,333	374,966	-	9,890,299
Buildings and improvements	1,049,377	83,926	-	1,133,303
Machinery and equipment	864,654	99,652	-	964,306
Vehicles	992,914	101,846	-	1,094,760
Office furnishings and equipment	59,151	2,565	-	61,716
Subtotal	12,481,429	662,955	-	13,144,384
Net capital assets being depreciated	4,752,597	(581,580)	-	4,171,017
Net governmental activities capital assets	\$ 5,072,486	\$ (554,401)	\$ -	\$ 4,518,085

**Business-type Activities**

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets not being depreciated -				
Land	\$ 40,776	\$ -	\$ -	\$ 40,776
Capital assets being depreciated:				
Buildings and improvements	7,781,671	-	-	7,781,671
Machinery and equipment	1,997,645	54,146	-	2,051,791
Water and sewer distribution systems	7,090,386	113,053	-	7,203,439
Subtotal	16,869,702	167,199	-	17,036,901
Accumulated depreciation:				
Buildings and improvements	3,247,880	254,761	-	3,502,641
Machinery and equipment	1,099,672	165,112	-	1,264,784
Water and sewer distribution systems	2,578,832	141,885	-	2,720,717
Subtotal	6,926,384	561,758	-	7,488,142
Net capital assets being depreciated	9,943,318	(394,559)	-	9,548,759
Net business-type activity capital assets	\$ 9,984,094	\$ (394,559)	\$ -	\$ 9,589,535

June 30, 2018

**Note 4 - Capital Assets (Continued)**

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

Governmental activities:		
General government		\$ 21,918
Public safety		96,759
Public works		476,313
Recreation and culture		<u>67,965</u>
Total governmental activities		<u>\$ 662,955</u>
Business-type activities - Water and sewer		\$ 561,758

**Note 5 - Interfund Receivables, Payables, and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Repair and Maintenance Fund	\$ 4,124
Major Street Fund	Street Repair and Maintenance Fund	<u>23,055</u>
	Total	<u>\$ 27,179</u>

The City has made the following long-term advances between funds:

<u>Fund Borrowed From</u>	<u>Fund Loaned To</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 254,024
Cemetery Fund	General Fund	<u>130,600</u>
	Total	<u>\$ 384,624</u>

The General Fund and the Major Street Fund loaned \$4,124 and \$23,055, respectively, to the Street Repair and Maintenance Fund to assist with capital asset purchases during fiscal year 2018.

The General Fund advanced \$400,000 to the Water and Sewer Fund to assist with capital asset purchases during fiscal year 2014. The remaining balance is the amount due as of June 30, 2018.

The Cemetery Fund advanced \$165,000 to the General Fund to assist with capital asset purchases during fiscal year 2017. The remaining balance is the amount due as of June 30, 2018.

The balance of amounts loaned to (borrowed from) discretely presented component units is as follows:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Capital Projects Fund	Downtown Development Authority	\$ 40,000

This balance is the result of the time lag between the date that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.



**Note 5 - Interfund Receivables, Payables, and Transfers (Continued)**

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

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Capital Projects Fund	\$ 34,500
Street Repair and Maintenance Fund	General Fund	115,000
	Local Streets Fund	141,673
	Water and Sewer Fund	22,140
	Total Street Repair and Maintenance Fund	278,813
Cemetery Fund	General Fund	6,150
Water and Sewer Fund	General Fund	5,800

The General Fund transferred funds to the Capital Projects Fund to finance future capital expenditures.

The City allocates 4.0000 mills to the Street Repair and Maintenance Fund to assist with street repair. The funds are then transferred from the Street Repair and Maintenance Fund to cover street repair costs spent in the Local Streets Fund and General Fund.

The transfer from the Street Repair and Maintenance Fund to the Water and Sewer Fund is to cover a portion of debt related to street work.

The City transferred the interest earned in the Oakridge Cemetery Fund to the General Fund to assist with a portion of the General Fund's costs of operating the cemetery.

The General Fund has an advance to the Cemetery Fund for the purchase of a wheel loader. The Water and Sewer Fund transfers funds to the General Fund to cover their portion of costs related to the advance for their use of the equipment.

**Note 6 - Capital Leases**

In fiscal years 2010 and 2016, the City entered into lease agreements as a lessee for the purchase of a fire truck and a police car, respectively. These lease agreements qualified as a capital lease for accounting purposes and, therefore, were been recorded at present value of the future minimum lease payments as of the inception date. These lease agreements were paid in full during the fiscal year 2018.

In fiscal year 2018, the City entered into a lease agreement as a lessee for the purchase of an additional police car for the police department. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at present value of the future minimum lease payments as of the inception date.

**Note 6 - Capital Leases (Continued)**

The future minimum lease payments under capital lease are as follows:

Years Ending June 30	Amount
2019	\$ 11,465
2020	11,465
Total	22,930
Less amount representing interest	1,910
Present value of net minimum lease payments	21,020
Long-term obligations under capital leases	<u>\$ 21,020</u>

**Note 7 - Long-term Debt**

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

**Governmental Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accumulated compensated absences	\$ 157,598	\$ -	\$ (6,335)	\$ 151,263	\$ 71,950

**Business-type Activities**

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:						
Revenue bonds - Series 2000A state	4.5-6.0%	\$ 390,000	\$ -	\$ (90,000)	\$ 300,000	\$ 95,000
Revenue bonds - Series 2009A water supply and sewage disposal system revenue bond	2.5%	1,250,000	-	(80,000)	1,170,000	85,000
Revenue bonds - Series 2010 DWRF bond	2.5%	1,315,000	-	(85,000)	1,230,000	90,000
Total		2,955,000	-	(255,000)	2,700,000	270,000
Accumulated compensated absences		45,431	-	(4,386)	41,045	14,813
Total business-type activities		<u>\$ 3,000,431</u>	<u>\$ -</u>	<u>\$ (259,386)</u>	<u>\$ 2,741,045</u>	<u>\$ 284,813</u>

**Revenue Bonds**

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. The City has pledged substantially all of the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds listed above. The bonds are payable solely from the net revenue from the water and sewer system. The remaining principal and interest to be paid on the bonds is \$3,117,864. During the current year, net revenue of the system was \$492,534, compared to annual debt requirements of \$338,576.

**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	Business-type Activities		
	Principal	Interest	Total
2019	\$ 270,000	\$ 73,839	\$ 343,839
2020	275,000	63,614	338,614
2021	290,000	53,026	343,026
2022	185,000	45,251	230,251
2023	195,000	40,564	235,564
2024-2028	1,030,000	127,755	1,157,755
2029-2030	455,000	13,815	468,815
Total	<u>\$ 2,700,000</u>	<u>\$ 417,864</u>	<u>\$ 3,117,864</u>

**Note 8 - 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 medical benefit claims. The City participates in the Michigan Municipal League shared risk program for claims relating to workers' compensation and property liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**Note 9 - Pension Plan**

***Plan Description***

The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers all full-time employees of the City. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board.

MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmichigan.com](http://www.mersofmichigan.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

***Benefits Provided***

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

The MERS plan covers all full-time employees of the City.

For junior officers, retirement benefits are calculated as 2.5 percent of the employee's final three-year average salary. For senior officers, retirement benefits are calculated as 2.25 percent of the employee's final five-year average salary. For all other employees, retirement benefits are calculated as 2.0 percent of the employee's final five-year average salary. Normal retirement age is 60 with early retirement at 50 with 25 years of service or 55 with 15 years of service. The vesting period is 10 years for all employees. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

**Note 9 - Pension Plan (Continued)**

Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Death benefits are equal to 25.0 percent of final average compensation.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions. Police and fire employees' benefit terms may be subject to binding arbitration in certain circumstances.

**Employees Covered by Benefit Terms**

The following members were covered by the benefit terms:

	<u>MERS of Michigan</u>
Date of member count	December 31, 2017
Inactive plan members or beneficiaries currently receiving benefits	33
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	<u>27</u>
Total employees covered by the plan	<u><u>68</u></u>

**Contributions**

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

For the year ended June 30, 2018, the average active employee contribution rate was 5.00 percent of annual pay for all full-time employees, and the City's average contribution rate was 5.81 percent of annual payroll for general employees, 16.05 percent of annual payroll for junior officers, and 8.47 percent of annual payroll for SEIU Local employees. There is no employer contribution for senior officers.

**Net Pension Liability**

The City has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The June 30, 2018 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2017 measurement date.

**Note 9 - Pension Plan (Continued)**

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

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Asset
<b>Balance at December 31, 2016</b>	\$ 7,298,418	\$ 7,340,585	\$ (42,167)
Changes for the year:			
Service cost	148,776	-	148,776
Interest	572,661	-	572,661
Differences between expected and actual experience	(149,856)	-	(149,856)
Contributions - Employer	-	156,042	(156,042)
Contributions - Employee	-	74,738	(74,738)
Net investment income	-	964,855	(964,855)
Benefit payments, including refunds	(429,107)	(429,107)	-
Administrative expenses	-	(15,279)	15,279
Net changes	142,474	751,249	(608,775)
<b>Balance at December 31, 2017</b>	<u>\$ 7,440,892</u>	<u>\$ 8,091,834</u>	<u>\$ (650,942)</u>

The plan's fiduciary net position represents 108.7 percent of the total pension liability.

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

For the year ended June 30, 2018, the City recognized pension expense of \$94,710.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (182,335)
Net difference between projected and actual earnings on pension plan investments	-	(148,522)
Employer contributions to the plan subsequent to the measurement date	78,658	-
Total	<u>\$ 78,658</u>	<u>\$ (330,857)</u>

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

Years Ending June 30	Amount
2019	\$ (52,317)
2020	(77,761)
2021	(123,547)
2022	(77,232)
Total	<u>\$ (330,857)</u>

**Note 9 - Pension Plan (Continued)**

**Actuarial Assumptions**

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 2.5 percent; assumed salary increases (including inflation) of 3.75 percent; an investment rate of return (net of investment expenses) of 8.0 percent; and using the RP-2014 mortality tables.

Mortality rates for nondisabled plan members is a 50 percent male and 50 percent female blend of the following tables: RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent; RP-2014 Employee Mortality Tables; RP-2014 Juvenile Mortality Tables.

Mortality rates for disabled plan members is a 50 percent male and 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

The mortality assumptions include a 10 percent margin for future mortality improvements, relative to the actual mortality experience seen in the 2009-2013 Experience Study.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0 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 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.

**Investment Rate of Return**

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. Best estimates of arithmetic real rates of return as of the December 31, 2017 measurement date 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 tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	55.50 %	6.65 %
International equity	18.50	1.76
U.S. government or agency fixed income	13.50	7.72
Corporate bonds	12.50	5.50

**Note 9 - Pension Plan (Continued)**

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

The following presents the net pension asset of the City, calculated using the discount rate of 8.0 percent, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability (asset) of the Municipal Employees' Retirement System of Michigan	\$ 123,003	\$ (650,942)	\$ (1,312,181)

***Pension Plan Fiduciary Net Position***

Detailed information about the plan's fiduciary net position is not available in a separately issued financial report. For the purpose of measuring the net pension asset, 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.

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## Required Supplemental Information

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# City of Buchanan, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes and administrative fees	\$ 1,191,155	\$ 1,191,155	\$ 1,228,754	\$ 37,599
State-shared revenue and grants	610,996	610,996	722,873	111,877
Charges for services	83,452	83,452	80,125	(3,327)
Licenses and permits	55,269	55,269	167,382	112,113
Investment income	30,000	30,000	22,395	(7,605)
Other revenue	154,695	154,695	149,886	(4,809)
<b>Total revenue</b>	<b>2,125,567</b>	<b>2,125,567</b>	<b>2,371,415</b>	<b>245,848</b>
<b>Expenditures</b>				
Current services:				
General government:				
City commission	48,047	59,450	33,410	26,040
City manager	128,378	135,587	129,842	5,745
Treasurer	125,743	127,318	115,963	11,355
Assessing	41,330	42,780	30,298	12,482
Clerk	63,143	72,432	66,463	5,969
Buildings and grounds	77,211	113,940	83,120	30,820
Elections	23,037	26,778	21,322	5,456
Property rentals	6,180	10,258	8,201	2,057
Other general government	15,500	15,500	11,860	3,640
Public safety:				
Police	989,040	997,650	1,009,650	(12,000)
Fire	144,882	147,082	117,864	29,218
Crossing guards	33,127	39,926	37,991	1,935
Building inspections and related	45,205	60,205	45,804	14,401
Public works:				
Streets	281,541	328,153	289,808	38,345
Cemetery maintenance	185,304	219,229	190,827	28,402
Recreation and culture	27,623	28,983	15,036	13,947
<b>Total expenditures</b>	<b>2,235,291</b>	<b>2,425,271</b>	<b>2,207,459</b>	<b>217,812</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>(109,724)</b>	<b>(299,704)</b>	<b>163,956</b>	<b>463,660</b>
<b>Other Financing Sources</b>				
Transfers in	121,941	121,941	126,950	5,009
New debt issued	-	-	32,485	32,485
Sale of capital assets	9,167	9,167	11,043	1,876
<b>Total other financing sources</b>	<b>131,108</b>	<b>131,108</b>	<b>170,478</b>	<b>39,370</b>
<b>Net Change in Fund Balance</b>	<b>21,384</b>	<b>(168,596)</b>	<b>334,434</b>	<b>503,030</b>
<b>Fund Balance - Beginning of year</b>	<b>1,649,887</b>	<b>1,649,887</b>	<b>1,649,887</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 1,671,271</b>	<b>\$ 1,481,291</b>	<b>\$ 1,984,321</b>	<b>\$ 503,030</b>

**City of Buchanan, Michigan**

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

**Year Ended June 30, 2018**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 348,930	\$ 348,930	\$ 413,618	\$ 64,688
Investment income	1,800	1,800	2,569	769
Other revenue	7,600	7,600	2,018	(5,582)
Total revenue	358,330	358,330	418,205	59,875
<b>Expenditures -</b>				
Current services -				
Public works:				
Streets	332,592	472,842	244,440	228,402
Drainage	25,738	26,238	21,674	4,564
Total expenditures	358,330	499,080	266,114	232,966
<b>Excess of Revenue (Under) Over Expenditures</b>	-	(140,750)	152,091	292,841
<b>Fund Balance - Beginning of year</b>	259,295	259,295	259,295	-
<b>Fund Balance - End of year</b>	<u>\$ 259,295</u>	<u>\$ 118,545</u>	<u>\$ 411,386</u>	<u>\$ 292,841</u>

**City of Buchanan, Michigan**

Required Supplemental Information  
 Budgetary Comparison Schedule - Major Special Revenue Funds (Continued)  
 Dial-A-Ride

**Year Ended June 30, 2018**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 82,000	\$ 82,000	\$ 80,083	\$ (1,917)
Intergovernmental:				
Federal grants	28,702	27,671	24,542	(3,129)
State-shared revenue and grants	74,238	76,901	81,024	4,123
Farebox revenue	14,800	14,800	12,526	(2,274)
Investment income	1,000	1,000	525	(475)
Other revenue	-	-	3,618	3,618
Total revenue	200,740	202,372	202,318	(54)
<b>Expenditures</b> - Operating costs - Purchased transportation service and miscellaneous	210,505	202,518	191,814	10,704
<b>Excess of Revenue (Under) Over Expenditures</b>	(9,765)	(146)	10,504	10,650
<b>Other Financing Sources</b> - Proceeds from sale of capital assets	-	-	11,022	11,022
<b>Net Change in Fund Balance</b>	(9,765)	(146)	21,526	21,672
<b>Fund Balance</b> - Beginning of year	91,341	91,341	91,341	-
<b>Fund Balance</b> - End of year	<u>\$ 81,576</u>	<u>\$ 91,195</u>	<u>\$ 112,867</u>	<u>\$ 21,672</u>

**City of Buchanan, Michigan**

Required Supplemental Information  
 Budgetary Comparison Schedule - Major Special Revenue Funds (Continued)  
 Street Repair and Maintenance Fund

**Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<b>Revenue</b>				
Property taxes	\$ 331,928	\$ 331,928	\$ 333,790	\$ 1,862
Investment income	1,000	1,000	1,671	671
Total revenue	332,928	332,928	335,461	2,533
<b>Expenditures</b> - Current - Public Works - Street construction	332,928	332,928	305,992	26,936
<b>Excess of Revenue Over Expenditures</b>	-	-	29,469	29,469
<b>Fund Balance</b> - Beginning of year	132,341	132,341	132,341	-
<b>Fund Balance</b> - End of year	<u>\$ 132,341</u>	<u>\$ 132,341</u>	<u>\$ 161,810</u>	<u>\$ 29,469</u>

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

	Last Four Calendar Years			
	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 148,776	\$ 145,371	\$ 134,606	\$ 127,212
Interest	572,661	562,901	544,130	527,997
Differences between expected and actual experience	(149,856)	(164,861)	(197,584)	-
Changes in assumptions	-	-	388,836	-
Benefit payments, including refunds	(429,107)	(417,110)	(452,165)	(474,532)
<b>Net Change in Total Pension Liability</b>	142,474	126,301	417,823	180,677
<b>Total Pension Liability - Beginning of year</b>	7,298,418	7,172,117	6,754,294	6,573,617
<b>Total Pension Liability - End of year</b>	<b>\$ 7,440,892</b>	<b>\$ 7,298,418</b>	<b>\$ 7,172,117</b>	<b>\$ 6,754,294</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 156,042	\$ 148,611	\$ 130,854	\$ 107,605
Contributions - Member	74,738	72,878	70,465	67,236
Net investment income	964,855	765,979	(105,298)	439,960
Administrative expenses	(15,279)	(15,125)	(15,513)	(16,097)
Benefit payments, including refunds	(429,107)	(417,110)	(452,165)	(474,532)
<b>Net Change in Plan Fiduciary Net Position</b>	751,249	555,233	(371,657)	124,172
<b>Plan Fiduciary Net Position - Beginning of year</b>	7,340,585	6,785,352	7,157,009	7,032,837
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 8,091,834</b>	<b>\$ 7,340,585</b>	<b>\$ 6,785,352</b>	<b>\$ 7,157,009</b>
<b>City's Net Pension (Asset) Liability - Ending</b>	<b>\$ (650,942)</b>	<b>\$ (42,167)</b>	<b>\$ 386,765</b>	<b>\$ (402,715)</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	108.75 %	100.58 %	94.61 %	105.96 %
<b>Covered Employee Payroll</b>	\$ 1,471,336	\$ 1,429,260	\$ 1,390,319	\$ 1,306,896
<b>City's Net Pension (Asset) Liability as a Percentage of Covered Employee Payroll</b>	(44.24)%	(2.95)%	27.82 %	(30.81)%

\* GASB Statement No. 68 was implemented in fiscal year 2015. This schedule is built prospectively. Ultimately, 10 years of data will be presented.

Required Supplemental Information  
Schedule of Pension Contributions

Last Ten Fiscal Years  
Years Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 157,913	\$ 159,475	\$ 136,659	\$ 118,989	\$ 102,778	\$ 96,946	\$ 93,462	\$ 95,714	\$ 88,595	\$ 90,462
Contributions in relation to the actuarially determined contribution	157,913	159,475	136,659	118,989	102,778	96,946	93,462	95,714	88,595	90,462
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Covered Employee Payroll</b>	<b>\$ 1,518,474</b>	<b>\$ 1,518,321</b>	<b>\$ 1,411,015</b>	<b>\$ 1,395,480</b>	<b>\$ 1,479,116</b>	<b>\$ 1,431,607</b>	<b>\$ 1,482,864</b>	<b>\$ 1,586,952</b>	<b>\$ 1,433,367</b>	<b>\$ 1,426,352</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>10.40 %</b>	<b>10.50 %</b>	<b>9.69 %</b>	<b>8.53 %</b>	<b>6.95 %</b>	<b>6.77 %</b>	<b>6.30 %</b>	<b>6.03 %</b>	<b>6.18 %</b>	<b>6.34 %</b>

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, 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
Amortization method	Level percentage of payroll, open
Remaining amortization period	A total of 21 years for positive unfunded liabilities in the December 31, 2017 valuation, reduced by one year in each successive annual valuation until the unfunded liability is paid off, not to exceed 30 years. A total of 10 years for negative unfunded liabilities, with the 10-year period re-established with each annual actuarial valuation
Asset valuation method	Five-year smoothed market beginning in 2016; 10-year smoothed market prior to 2016
Inflation	2.5 percent
Salary increase	3.75 to 11.00 percent including inflation
Investment rate of return	8.0 percent - Net of pension plan investment expense, gross of administrative expense, including inflation
Retirement age	60 years old
Mortality	Mortality rates for nondisabled plan members are a 50 percent male and 50 percent female blend of the following tables: RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables. Mortality rates for disabled plan members are a 50 percent male and 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables

**Budgetary Information**

The annual budget is prepared by City's management and adopted by the City Commission; subsequent amendments are approved by the City Commission. The budgets are prepared on a basis consistent with generally accepted accounting principles, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budgets were amended in a legally permissible manner.

The budget documents present information by fund, function, department, and line item. The legal level of budgetary control adopted by the governing body is the department level.

The Dial-A-Ride Fund is a special revenue fund contained in the governmental funds statement of revenue, expenditures, and changes in fund balances. This fund accounts for a blended component unit, which has a September 30 year end. This fund is budgeted on the September 30 fiscal year, rather than the City's June 30 year end. Therefore, the required supplemental information includes a budget for the year from October 1, 2016 through September 30, 2017.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Police	\$ 997,650	\$ 1,009,650	\$ (12,000)

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## Other Supplemental Information

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Other Supplemental Information  
 Combining Balance Sheet  
 Nonmajor Governmental Funds

June 30, 2018

	Special Revenue Funds				Total
	Local Streets	Small Cities Program	Housing Grant	Cemetery	
<b>Assets</b>					
Cash and cash equivalents	\$ 4,719	\$ 342	\$ 150	\$ 3,664	\$ 8,875
Investments	471,878	-	22,000	174,079	667,957
Receivables					
Other receivables	-	-	527	184	711
Due from other governments	21,621	-	-	-	21,621
Advances to other funds	-	-	-	130,600	130,600
Prepaid expenses	2,020	-	-	-	2,020
<b>Total assets</b>	<b>\$ 500,238</b>	<b>\$ 342</b>	<b>\$ 22,677</b>	<b>\$ 308,527</b>	<b>\$ 831,784</b>
<b>Liabilities</b>					
Accounts payable	\$ 1,801	\$ -	\$ -	\$ -	\$ 1,801
Accrued liabilities and other	1,277	-	-	-	1,277
Unearned revenue	-	-	22,677	-	22,677
<b>Total liabilities</b>	<b>3,078</b>	<b>-</b>	<b>22,677</b>	<b>-</b>	<b>25,755</b>
<b>Fund Balances</b>					
Nonspendable	2,020	-	-	-	2,020
Restricted	495,140	342	-	-	495,482
Committed	-	-	-	308,527	308,527
<b>Total fund balances</b>	<b>497,160</b>	<b>342</b>	<b>-</b>	<b>308,527</b>	<b>806,029</b>
<b>Total liabilities and fund balances</b>	<b>\$ 500,238</b>	<b>\$ 342</b>	<b>\$ 22,677</b>	<b>\$ 308,527</b>	<b>\$ 831,784</b>

**City of Buchanan, Michigan**

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

**Year Ended June 30, 2018**

	Special Revenue Funds				Total
	Local Streets	Small Cities Program	Housing Grant	Cemetery	
<b>Revenue</b>					
Intergovernmental - State-shared revenue and grants	\$ 126,419	\$ -	\$ -	\$ -	\$ 126,419
Investment income	3,843	-	-	6,265	10,108
Other revenue	-	-	-	4,988	4,988
Total revenue	130,262	-	-	11,253	141,515
<b>Expenditures -</b>					
Current services - Public works:					
Streets	245,247	-	-	-	245,247
Drainage	18,201	-	-	-	18,201
Cemetery maintenance	-	-	-	8,555	8,555
Total expenditures	263,448	-	-	8,555	272,003
<b>Excess of Revenue (Under) Over Expenditures</b>	(133,186)	-	-	2,698	(130,488)
<b>Other Financing Sources (Uses) -</b>					
Transfers in	141,673	-	-	(6,150)	135,523
<b>Net Change in Fund Balances</b>	8,487	-	-	(3,452)	5,035
<b>Fund Balances - Beginning of year</b>	488,673	342	-	311,979	800,994
<b>Fund Balances - End of year</b>	<u>\$ 497,160</u>	<u>\$ 342</u>	<u>\$ -</u>	<u>\$ 308,527</u>	<u>\$ 806,029</u>

## City of Buchanan, Michigan

### Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds

June 30, 2018

	Agency Fund	Tax Collection Fund	Repairs and Demolition Revolving Fund	Total Agency Funds
<b>Assets - Cash and cash equivalents</b>	<b>\$ 39,115</b>	<b>\$ 100</b>	<b>\$ 12,262</b>	<b>\$ 51,477</b>
<b>Liabilities</b>				
Due to other governmental units	\$ -	\$ 100	\$ -	\$ 100
Other liabilities	39,115	-	12,262	51,377
Total liabilities	<b>\$ 39,115</b>	<b>\$ 100</b>	<b>\$ 12,262</b>	<b>\$ 51,477</b>