

---

# City of Buchanan, Michigan

---

**Financial Report  
with Supplemental Information  
June 30, 2019**

<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 Fund:	
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	18-19
Notes to Financial Statements	20-38
<b>Required Supplemental Information</b>	39
Budgetary Comparison Schedule - General Fund	40
Budgetary Comparison Schedule - Major Special Revenue Funds	41-43
Schedule of Changes in the Net Pension Liability and Related Ratios	44
Schedule of Pension Contributions	45
Notes to Required Supplemental Information	46
<b>Other Supplemental Information</b>	47
Nonmajor Governmental Funds:	
Combining Balance Sheet	48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49
Agency Funds - Combining Statement of Assets and Liabilities	50

## **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 City of Buchanan, Michigan (the "City") as of and for the year ended June 30, 2019 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 City of Buchanan, Michigan as of June 30, 2019 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

**Other Matters**

*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 opinions on the financial statements that collectively comprise 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 24, 2019

As management of City of Buchanan, Michigan (the "City"), we offer readers this narrative overview and analysis of the financial activities for the year ended June 30, 2019.

**Financial Highlights**

- State-shared revenue, the City's second largest revenue source, totaled approximately \$765,000.
- The City paid off approximately \$486,000 in long-term debt and capital lease payments during the year.
- The City invested approximately \$264,000 into an ongoing street project during the year.

**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.

**The City's Net Position**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current and other assets:						
Cash and investments	\$ 4,161,356	\$ 3,972,402	\$ 1,729,986	\$ 1,276,304	\$ 5,891,342	\$ 5,248,706
Receivables:						
Receivables	322,340	317,686	218,353	242,015	540,693	559,701
Due from component units	-	40,000	-	-	-	40,000
Internal balances	214,753	254,024	(214,753)	(254,024)	-	-
Other assets	17,031	309,955	235,683	708,226	252,714	1,018,181
Capital assets	4,709,191	4,518,085	9,158,307	9,589,535	13,867,498	14,107,620
Total assets	9,424,671	9,412,152	11,127,576	11,562,056	20,552,247	20,974,208
<b>Deferred Outflows of Resources</b>	294,993	35,396	360,547	43,262	655,540	78,658
<b>Liabilities</b>						
Current liabilities	163,383	130,811	93,259	131,518	256,642	262,329
Noncurrent liabilities	242,323	172,283	2,349,735	2,741,045	2,592,058	2,913,328
Total liabilities	405,706	303,094	2,442,994	2,872,563	2,848,700	3,175,657
<b>Deferred Inflows of Resources</b>	125,133	232,310	50,324	181,971	175,457	414,281
<b>Net Position</b>						
Net investment in capital assets	4,698,375	4,497,065	6,933,307	6,889,535	11,631,682	11,386,600
Restricted	892,982	1,021,755	229,314	343,839	1,122,296	1,365,594
Unrestricted	3,597,468	3,393,324	1,832,184	1,317,410	5,429,652	4,710,734
Total net position	<b>\$ 9,188,825</b>	<b>\$ 8,912,144</b>	<b>\$ 8,994,805</b>	<b>\$ 8,550,784</b>	<b>\$18,183,630</b>	<b>\$17,462,928</b>

The City's combined net position increased 4.13 percent from a year ago, increasing from \$17,462,928 to \$18,183,630.

## 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 3.10 percent, from \$8,912,144 to \$9,188,825, while business-type activities increased by 5.19 percent, from \$8,550,784 to \$8,994,805.

#### The City's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 187,120	\$ 213,627	\$ 2,362,234	\$ 2,181,307	\$ 2,549,354	\$ 2,394,934
Operating grants	752,440	654,122	-	-	752,440	654,122
Capital grants	176,793	67,040	273,734	436,185	450,527	503,225
General revenue:						
Property taxes	1,677,294	1,685,527	-	-	1,677,294	1,685,527
Intergovernmental	701,987	716,924	-	-	701,987	716,924
Investment earnings	101,478	43,116	34,759	10,110	136,237	53,226
Other revenue:						
Cable franchise fees	48,712	51,648	-	-	48,712	51,648
Sale of capital assets	5,107	13,399	-	-	5,107	13,399
Other miscellaneous income	180,867	163,528	-	-	180,867	163,528
<b>Total revenue</b>	<b>3,831,798</b>	<b>3,608,931</b>	<b>2,670,727</b>	<b>2,627,602</b>	<b>6,502,525</b>	<b>6,236,533</b>
<b>Expenses</b>						
General government	503,371	520,992	-	-	503,371	520,992
Public safety	1,206,514	1,197,652	-	-	1,206,514	1,197,652
Public works	1,677,213	1,653,174	-	-	1,677,213	1,653,174
Recreation and culture	105,025	83,716	-	-	105,025	83,716
Debt service	5,764	5,633	-	-	5,764	5,633
Water and Sewer	-	-	2,283,936	2,341,190	2,283,936	2,341,190
<b>Total expenses</b>	<b>3,497,887</b>	<b>3,461,167</b>	<b>2,283,936</b>	<b>2,341,190</b>	<b>5,781,823</b>	<b>5,802,357</b>
<b>Transfers</b>	<b>(57,230)</b>	<b>(16,340)</b>	<b>57,230</b>	<b>16,340</b>	<b>-</b>	<b>-</b>
<b>Change in Net Position</b>	<b>276,681</b>	<b>131,424</b>	<b>444,021</b>	<b>302,752</b>	<b>720,702</b>	<b>434,176</b>
<b>Net Position - Beginning 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>
<b>Net Position - End of year</b>	<b>\$ 9,188,825</b>	<b>\$ 8,912,144</b>	<b>\$ 8,994,805</b>	<b>\$ 8,550,784</b>	<b>\$ 18,183,630</b>	<b>\$ 17,462,928</b>

During the past fiscal year, governmental activities revenue increased from \$3,608,931 to \$3,831,798, an increase of 6.18 percent, primarily due to an increase of intergovernmental revenue. Governmental expenses increased during the year from \$3,461,167 to \$3,497,887, an increase of 1.06 percent, primarily in the public works department.

Within business-type activities, charges for water, sewer, and ready-to-serve revenue increased approximately \$180,927 during the 2019 fiscal year due to a rate increase, from \$2,181,307 to \$2,362,234. Business-type expenses decreased by 2.45 percent from \$2,341,190 to \$2,283,936 due to expenses incurred in the prior year related to the preliminary study of the City's sewer system.

#### **Governmental Activities**

- In March 2019, the City purchased a 2019 Western Star Snowplow for the public works department, which will be shared with the Water and Sewer Fund, for the amount of \$178,044.
- In October 2018, the City purchased a 2018 Western Star Snowplow and salt spreader for the public works department, which will be shared with the Water and Sewer Fund, for the amount of \$164,560.

## City of Buchanan, Michigan

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

- In October 2018, the City purchased a forestry tower truck for the cemetery department for the amount of \$139,474.
- In September 2018, the City repaired the Mill Reace retaining wall for the amount \$18,640.
- In August 2018, the City purchased seven new and refurbished welcome signs.
- In August 2018, the City purchased two speed radar signs.
- In July 2019, the City completed the River Street Traffic Signal Project.
- An ongoing project for the City is removing the public works department and possibly the fire station to the River Street parcel purchased in 2015 and splitting the remaining parcel up into buildable sites for light industrial businesses.
- In August 2019, the City purchased a new mower for the cemetery department for the amount of \$9,746.
- In October 2018, the City purchased new turnout gear for the fire department for the amount of \$11,031.

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

The Water and Sewer Fund experienced an increase of \$444,021 in net position, which will be used to secure future bonding plans to improve the wastewater plant. The City Commission adopted a new rate policy from the 2005 rate study conducted by a third-party consulting firm that went into effect during a prior year.

#### **Component Units**

Component units include the Downtown Development Authority and 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 \$2,368,444 to be paid from the General Fund fund balance. During the course of the year, the City amended the budget to \$2,803,429. The actual operating expenses were \$2,619,689, and actual revenue collected was \$2,334,535. The City was over budget in General Fund - fire due to additional equipment purchases.

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

The City continued making payments on revenue and general obligation bonds incurred to construct major capital related to infrastructure. The City paid off the 2000 W&S bond early to better position the City for the upcoming Oxidation Ditch (new sewer plant) Bond, estimated to be issued in Spring 2020.

#### **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, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 58,718	\$ 47,842	\$ 106,560	\$ 4,321
Investments (Note 3)	4,102,638	1,682,144	5,784,782	185,282
Receivables:				
Property taxes receivable	9,890	-	9,890	-
Customer receivables	-	216,791	216,791	-
Other receivables	114,348	1,562	115,910	48,444
Due from other governments	198,102	-	198,102	-
Internal balances	214,753	(214,753)	-	-
Prepaid expenses	17,031	6,369	23,400	-
Restricted investments (Note 3)	-	229,314	229,314	-
Capital assets: (Note 4)				
Assets not subject to depreciation	644,723	40,776	685,499	-
Assets subject to depreciation - Net	4,064,468	9,117,531	13,181,999	-
<b>Total assets</b>	<b>9,424,671</b>	<b>11,127,576</b>	<b>20,552,247</b>	<b>238,047</b>
<b>Deferred Outflows of Resources</b> - Deferred outflows related to pensions (Note 9)	294,993	360,547	655,540	-
<b>Liabilities</b>				
Accounts payable	122,760	30,461	153,221	5,358
Due to primary government	-	-	-	798
Accrued liabilities and other	17,947	19,847	37,794	-
Unearned revenue	22,676	-	22,676	-
Customer deposits	-	42,951	42,951	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	75,156	11,202	86,358	-
Capital leases (Note 6)	10,816	-	10,816	-
Current portion of long-term debt (Note 7)	-	175,000	175,000	-
Due in more than one year:				
Compensated absences (Note 7)	78,493	18,374	96,867	-
Net pension liability (Note 9)	77,858	95,159	173,017	-
Long-term debt (Note 7)	-	2,050,000	2,050,000	-
<b>Total liabilities</b>	<b>405,706</b>	<b>2,442,994</b>	<b>2,848,700</b>	<b>6,156</b>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for the following year	83,959	-	83,959	-
Deferred inflows related to pensions (Note 9)	41,174	50,324	91,498	-
<b>Total deferred inflows of resources</b>	<b>125,133</b>	<b>50,324</b>	<b>175,457</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	4,698,375	6,933,307	11,631,682	-
Restricted:				
Streets and highways	777,276	-	777,276	-
Debt service	-	229,314	229,314	-
Small cities grant program	342	-	342	-
Dial-A-Ride program	115,364	-	115,364	-
Economic development	-	-	-	231,891
Unrestricted	3,597,468	1,832,184	5,429,652	-
<b>Total net position</b>	<b>\$ 9,188,825</b>	<b>\$ 8,994,805</b>	<b>\$ 18,183,630</b>	<b>\$ 231,891</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	\$ 503,371	\$ 70,882	\$ -	\$ -
Public safety	1,206,514	31,400	-	3,000
Public works	1,677,213	84,838	707,140	154,236
Recreation and culture	105,025	-	45,300	19,557
Interest on long-term debt	5,764	-	-	-
Total governmental activities	3,497,887	187,120	752,440	176,793
Business-type activities - Water and Sewer Fund	2,283,936	2,362,234	-	273,734
Total primary government	<b>\$ 5,781,823</b>	<b>\$ 2,549,354</b>	<b>\$ 752,440</b>	<b>\$ 450,527</b>
Component units:				
Downtown Development Authority	\$ 109,028	\$ 10,643	\$ -	\$ -
Brownfield Redevelopment Authority	4,004	-	-	-
Total component units	<b>\$ 113,032</b>	<b>\$ 10,643</b>	<b>\$ -</b>	<b>\$ -</b>

General revenue:

- Property taxes and administrative fees
- State-shared revenue and grants
- 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, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (432,489)	\$ -	\$ (432,489)	\$ -
(1,172,114)	-	(1,172,114)	-
(730,999)	-	(730,999)	-
(40,168)	-	(40,168)	-
(5,764)	-	(5,764)	-
(2,381,534)	-	(2,381,534)	-
-	352,032	352,032	-
(2,381,534)	352,032	(2,029,502)	-
-	-	-	(98,385)
-	-	-	(4,004)
-	-	-	(102,389)
1,677,294	-	1,677,294	83,713
701,987	-	701,987	-
101,478	34,759	136,237	5,012
48,712	-	48,712	-
5,107	-	5,107	-
180,867	-	180,867	-
2,715,445	34,759	2,750,204	88,725
(57,230)	57,230	-	-
276,681	444,021	720,702	(13,664)
8,912,144	8,550,784	17,462,928	245,555
<b>\$ 9,188,825</b>	<b>\$ 8,994,805</b>	<b>\$ 18,183,630</b>	<b>\$ 231,891</b>

**City of Buchanan, Michigan**

**Governmental Funds  
Balance Sheet**

**June 30, 2019**

	General Fund	Capital Projects Fund	Major Streets Fund	Street Repair and Maintenance Fund	Dial-A-Ride Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents (Note 3)	\$ 3,164	\$ 6,814	\$ 4,615	\$ 1,679	\$ 34,924	\$ 7,522	\$ 58,718
Investments (Note 3)	1,693,805	951,726	353,516	391,977	165,326	546,288	4,102,638
Receivables:							
Property taxes receivable	-	-	-	-	9,890	-	9,890
Other receivables	113,158	480	-	-	-	710	114,348
Due from other governments	100,817	-	69,987	-	3,846	23,452	198,102
Advances to other funds (Note 5)	214,753	-	-	-	-	115,770	330,523
Prepaid expenses	12,856	-	2,155	-	-	2,020	17,031
<b>Total assets</b>	<b>\$ 2,138,553</b>	<b>\$ 959,020</b>	<b>\$ 430,273</b>	<b>\$ 393,656</b>	<b>\$ 213,986</b>	<b>\$ 695,762</b>	<b>\$ 4,831,250</b>
<b>Liabilities</b>							
Accounts payable	\$ 61,585	\$ 4,356	\$ 5,926	\$ 34,041	\$ 14,663	\$ 2,189	\$ 122,760
Advances from other funds (Note 5)	115,770	-	-	-	-	-	115,770
Accrued liabilities and other	15,214	-	1,396	-	-	1,337	17,947
Unearned revenue	-	-	-	-	-	22,676	22,676
<b>Total liabilities</b>	<b>192,569</b>	<b>4,356</b>	<b>7,322</b>	<b>34,041</b>	<b>14,663</b>	<b>26,202</b>	<b>279,153</b>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue	104,000	-	-	-	-	-	104,000
Property taxes levied for the following year	-	-	-	-	83,959	-	83,959
<b>Total deferred inflows of resources</b>	<b>104,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,959</b>	<b>-</b>	<b>187,959</b>
<b>Fund Balances</b>							
Nonspendable:							
Prepays	12,856	-	2,155	-	-	2,020	17,031
Advances to other funds	214,753	-	-	-	-	-	214,753
Restricted:							
Major streets	-	-	420,796	-	-	-	420,796
Local streets	-	-	-	-	-	352,305	352,305
Dial-A-Ride	-	-	-	-	115,364	-	115,364
Small cities	-	-	-	-	-	342	342
Committed:							
Street repair	-	-	-	359,615	-	-	359,615
Oakridge cemetery	-	-	-	-	-	314,893	314,893
Assigned:							
Capital projects	-	954,664	-	-	-	-	954,664
Municipal complex	45,956	-	-	-	-	-	45,956
Unassigned	1,568,419	-	-	-	-	-	1,568,419
<b>Total fund balances</b>	<b>1,841,984</b>	<b>954,664</b>	<b>422,951</b>	<b>359,615</b>	<b>115,364</b>	<b>669,560</b>	<b>4,364,138</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 2,138,553</b>	<b>\$ 959,020</b>	<b>\$ 430,273</b>	<b>\$ 393,656</b>	<b>\$ 213,986</b>	<b>\$ 695,762</b>	<b>\$ 4,831,250</b>

**Governmental Funds**

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

---

**June 30, 2019**

<b>Fund Balances Reported in Governmental Funds</b>	\$ 4,364,138
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	4,709,191
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	104,000
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(10,816)
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	(153,649)
Pension benefits, including deferred inflows and outflows	175,961
<b>Net Position of Governmental Activities</b>	<b><u>\$ 9,188,825</u></b>

# City of Buchanan, Michigan

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances

**Year Ended June 30, 2019**

	General Fund	Capital Projects Fund	Major Streets Fund	Street Repair and Maintenance Fund	Dial-A-Ride Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>							
Taxes:							
Property taxes	\$ 1,169,058	\$ 43,460	\$ -	\$ 336,016	\$ 86,154	\$ -	\$ 1,634,688
Administration fees	42,606	-	-	-	-	-	42,606
Intergovernmental:							
Federal grants	-	-	-	-	27,674	-	27,674
State-shared revenue and grants	701,987	-	465,134	-	79,543	134,789	1,381,453
Charges for services	89,009	-	-	-	12,659	-	101,668
Licenses and permits:							
Cable franchise fees	48,712	-	-	-	-	-	48,712
Business licenses	23,911	-	-	-	-	-	23,911
Other licenses and permits	55,363	-	-	-	-	-	55,363
Investment income and rentals	49,442	20,178	7,380	5,413	1,203	17,862	101,478
Other revenue	154,447	91,117	-	-	3,286	6,052	254,902
<b>Total revenue</b>	<b>2,334,535</b>	<b>154,755</b>	<b>472,514</b>	<b>341,429</b>	<b>210,519</b>	<b>158,703</b>	<b>3,672,455</b>
<b>Expenditures</b>							
Current services:							
General government	545,695	3,303	-	-	-	-	548,998
Public safety	1,146,231	22,395	-	-	-	-	1,168,626
Public works	783,296	54,175	313,010	147,463	208,022	252,999	1,758,965
Recreation and culture	30,249	16,296	-	-	-	-	46,545
Debt service	15,968	-	-	-	-	-	15,968
<b>Total expenditures</b>	<b>2,521,439</b>	<b>96,169</b>	<b>313,010</b>	<b>147,463</b>	<b>208,022</b>	<b>252,999</b>	<b>3,539,102</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>(186,904)</b>	<b>58,586</b>	<b>159,504</b>	<b>193,966</b>	<b>2,497</b>	<b>(94,296)</b>	<b>133,353</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in (Note 5)	129,043	98,250	-	337,300	-	155,431	720,024
Transfers out (Note 5)	(98,250)	-	(147,939)	(333,461)	-	(197,604)	(777,254)
Sale of capital assets	13,774	-	-	-	-	-	13,774
<b>Total other financing sources (uses)</b>	<b>44,567</b>	<b>98,250</b>	<b>(147,939)</b>	<b>3,839</b>	<b>-</b>	<b>(42,173)</b>	<b>(43,456)</b>
<b>Net Change in Fund Balances</b>	<b>(142,337)</b>	<b>156,836</b>	<b>11,565</b>	<b>197,805</b>	<b>2,497</b>	<b>(136,469)</b>	<b>89,897</b>
<b>Fund Balances - Beginning 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>
<b>Fund Balances - End of year</b>	<b>\$ 1,841,984</b>	<b>\$ 954,664</b>	<b>\$ 422,951</b>	<b>\$ 359,615</b>	<b>\$ 115,364</b>	<b>\$ 669,560</b>	<b>\$ 4,364,138</b>

**Governmental Funds**

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

**Year Ended June 30, 2019**

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$ 89,897</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	790,812
Depreciation expense	(599,706)
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	(8,667)
Repayment of capital leases is an expenditure in the governmental funds, but not in the statement of activities (where it reduces capital leases)	10,204
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	(5,859)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 276,681</u></b>

**Proprietary Fund  
Statement of Net Position**

**June 30, 2019**

Water and  
Sewer Fund

**Assets**

Current assets:

Cash and cash equivalents (Note 3)	\$ 47,842
Investments (Note 3)	1,682,144
Receivables	218,353
Prepaid expenses	6,369
	<hr/>
Total current assets	1,954,708

Noncurrent assets:

Restricted investments (Note 3)	229,314
Capital assets: (Note 4)	
Assets not subject to depreciation	40,776
Assets subject to depreciation - Net	9,117,531
	<hr/>
Total noncurrent assets	9,387,621
	<hr/>
Total assets	11,342,329

**Deferred Outflows of Resources** - Deferred inflows related to pensions (Note 9) 360,547

**Liabilities**

Current liabilities:

Accounts payable	30,461
Accrued liabilities and other	19,847
Customer deposits	42,951
Compensated absences (Note 7)	11,202
Current portion of long-term debt (Note 7)	175,000
	<hr/>
Total current liabilities	279,461

Noncurrent liabilities:

Advances from other funds (Note 5)	214,753
Compensated absences (Note 7)	18,374
Net pension liability (Note 9)	95,159
Long-term debt (Note 7)	2,050,000
	<hr/>
Total noncurrent liabilities	2,378,286
	<hr/>
Total liabilities	2,657,747

**Deferred Inflows of Resources** - Deferred inflows related to pensions (Note 9) 50,324

**Net Position**

Net investment in capital assets	6,933,307
Restricted - Debt service	229,314
Unrestricted	1,832,184
	<hr/>
Total net position	<b><u>\$ 8,994,805</u></b>

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

**Year Ended June 30, 2019**

	Water and Sewer Fund
<b>Operating Revenue</b>	
Sale of water	\$ 464,174
Sewage disposal charges	646,395
Ready to serve	669,998
Interest and penalty charges	43,981
Other operating revenue	537,686
Total operating revenue	2,362,234
<b>Operating Expenses</b>	
Cost of water	610,720
Cost of sewage treatment	1,025,112
Depreciation	569,395
Total operating expenses	2,205,227
<b>Operating Income</b>	157,007
<b>Nonoperating Revenue (Expense)</b>	
Investment income	34,759
Interest expense	(78,709)
Total nonoperating expense	(43,950)
<b>Income - Before capital contributions and transfers</b>	113,057
<b>Capital Contributions - Capital grants</b>	273,734
<b>Transfers In (Note 5)</b>	63,030
<b>Transfers Out (Note 5)</b>	(5,800)
<b>Change in Net Position</b>	444,021
<b>Net Position - Beginning of year</b>	8,550,784
<b>Net Position - End of year</b>	<b>\$ 8,994,805</b>



**Proprietary Fund  
Statement of Cash Flows**

**Year Ended June 30, 2019**

	Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 2,350,426
Payments to suppliers	(856,559)
Payments to employees and fringes	(820,435)
	673,432
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers from other funds	63,030
Transfers to other funds	(5,800)
Repayments of loans from other funds	(39,271)
	17,959
<b>Cash Flows from Capital and Related Financing Activities</b>	
Receipt of capital grants	307,883
Purchase of capital assets	(138,167)
Principal and interest paid on capital debt	(556,709)
	(386,993)
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	34,759
Proceeds from sale and maturities of investment securities	(314,643)
	(279,884)
<b>Net Increase in Cash</b>	24,514
<b>Cash - Beginning of year</b>	23,328
<b>Cash - End of year</b>	<b>\$ 47,842</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 157,007
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	569,395
Pension expense	4,245
Changes in assets and liabilities:	
Receivables and other assets	(11,808)
Accounts payable, customer deposits, and accrued liabilities	(34,085)
Accrued and other liabilities	(11,322)
	516,425
Total adjustments	516,425
Net cash provided by operating activities	<b>\$ 673,432</b>

Fiduciary Funds  
Statement of Fiduciary Assets and Liabilities

June 30, 2019

Agency Funds

**Assets**

Cash and cash equivalents (Note 3)	\$	46,670
Due from component units (Note 5)		798

Total assets	<b>\$</b>	<b>47,468</b>
--------------	-----------	---------------

**Liabilities**

Due to other governmental units	\$	100
Other liabilities		47,368

Total liabilities	<b>\$</b>	<b>47,468</b>
-------------------	-----------	---------------

**Component Units  
Statement of Net Position**

**June 30, 2019**

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 3,319	\$ 1,002	\$ 4,321
Investments (Note 3)	111,641	73,641	185,282
Notes receivable	48,444	-	48,444
Total assets	163,404	74,643	238,047
<b>Liabilities</b>			
Accounts payable	5,358	-	5,358
Due to primary government (Note 5)	798	-	798
Total liabilities	6,156	-	6,156
<b>Net Position - Restricted</b>	<b>\$ 157,248</b>	<b>\$ 74,643</b>	<b>\$ 231,891</b>

**City of Buchanan, Michigan**

---

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Downtown Development Authority	\$ 109,028	\$ 10,643	\$ -	\$ -
Brownfield Redevelopment Authority	4,004	-	-	-
Total	<b>\$ 113,032</b>	<b>\$ 10,643</b>	<b>\$ -</b>	<b>\$ -</b>

General revenue:  
 Property taxes  
 Unrestricted investment income  
 Total general revenue

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

Component Units  
Statement of Activities

Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (98,385)	\$ -	\$ (98,385)
-	(4,004)	(4,004)
(98,385)	(4,004)	(102,389)
65,608	18,105	83,713
3,617	1,395	5,012
69,225	19,500	88,725
(29,160)	15,496	(13,664)
186,408	59,147	245,555
<b>\$ 157,248</b>	<b>\$ 74,643</b>	<b>\$ 231,891</b>

**Note 1 - Significant Accounting Policies**

***Accounting and Reporting Principles***

City of Buchanan, Michigan (the "City") follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). 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, 2018. The September 30 year end is the fiscal year end of the grant programs from which the Dial-A-Ride Fund receives federal funding. Complete financial statements for the Dial-A-Ride Fund can be obtained at the city manager's office.

**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 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. The DDA does not issue separate financial statements.

***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. The BRA does not issue separate financial statements.

**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 fund as a "major" enterprise fund:

- 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 Agency Fund
- The Tax Collection Fund
- The Repairs and Demolition Revolving 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.



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

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."

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 and the Water and Sewer Fund 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 is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

**Net Position Flow Assumption**

The City will sometimes fund outlays for a particular purpose from both restricted (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 City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

**Fund Balance Flow Assumptions**

The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the 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 Treasurer 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 rolls.

The City's 2018 property tax revenue was levied and collectible on July 1, 2018 and is recognized as revenue in the year ended June 30, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the City totaled approximately \$87 million (a portion of which is abated and a portion of which is captured by the DDA and the BRA), 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 \$1,480,000 for operating and \$86,000 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 liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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 is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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 January 2017, the GASB 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 June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2021.

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.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The City is currently evaluating the impact this standard will have on the financial statements when adopted for the year ending June 30, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of conduit debt; provides a single method of reporting conduit debt obligations by issuers; and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. As a result, issuers should not recognize a liability for items meeting the definition of conduit debt; however, a liability should be recorded for additional or voluntary commitments to support debt service if certain recognition criteria are met. The standard also addresses the treatment of arrangements where capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by a third-party obligor. The requirements of the standard will be applied retrospectively and are effective for the City's financial statements for the June 30, 2022 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:

Cumulative shortfall at July 1, 2018	\$ (439,439)
Current year building permit revenue	23,911
Related expenses - Direct costs	<u>(35,732)</u>
Cumulative shortfall at June 30, 2019	<u><u>\$ (451,260)</u></u>

**Note 3 - Deposits and Investments**

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

The City has designated 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.

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 no uninsured or uncollateralized deposits. 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, 2019, 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	\$ 1,453,150	Counterparty's trust department
Municipal bonds	299,922	Counterparty's trust department
Money market	4,419,412	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	\$ 1,453,150	0.65
Municipal bonds	299,922	0.84

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

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of June 30, 2019, 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	\$ 1,254,248	AAA	S&P/Moody's
Government agencies	198,902	AA	S&P
Municipal bonds	299,922	AA	S&P
Money market	4,419,412	unrated	

**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 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 measurement as of June 30, 2019:

- Government agencies and municipal bonds in the amount of \$1,753,072 are valued using Level 2 inputs.

The fair value of government agencies and municipal bonds at June 30, 2019 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.

**Note 4 - Capital Assets**

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

**Governmental Activities**

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 319,889	\$ 33,400	\$ -	\$ 353,289
Construction in progress	27,179	264,255	-	291,434
Subtotal	347,068	297,655	-	644,723
Capital assets being depreciated:				
Roads and sidewalks	11,850,187	-	-	11,850,187
Buildings and improvements	2,286,588	30,786	-	2,317,374
Machinery and equipment	1,742,331	462,371	-	2,204,702
Vehicles	1,365,045	-	-	1,365,045
Office furnishings and equipment	71,250	-	-	71,250
Subtotal	17,315,401	493,157	-	17,808,558
Accumulated depreciation:				
Roads and sidewalks	9,890,299	325,310	-	10,215,609
Buildings and improvements	1,133,303	79,380	-	1,212,683
Machinery and equipment	964,306	121,375	-	1,085,681
Vehicles	1,094,760	71,639	-	1,166,399
Office furnishings and equipment	61,716	2,002	-	63,718
Subtotal	13,144,384	599,706	-	13,744,090
Net capital assets being depreciated	4,171,017	(106,549)	-	4,064,468
Net governmental activities capital assets	<u>\$ 4,518,085</u>	<u>\$ 191,106</u>	<u>\$ -</u>	<u>\$ 4,709,191</u>



June 30, 2019

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

**Business-type Activities**

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
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	2,051,791	114,767	-	2,166,558
Water and sewer distribution systems	7,203,439	23,400	-	7,226,839
Subtotal	17,036,901	138,167	-	17,175,068
Accumulated depreciation:				
Buildings and improvements	3,502,641	254,761	-	3,757,402
Machinery and equipment	1,264,784	172,017	-	1,436,801
Water and sewer distribution systems	2,720,717	142,617	-	2,863,334
Subtotal	7,488,142	569,395	-	8,057,537
Net capital assets being depreciated	9,548,759	(431,228)	-	9,117,531
Net business-type activities capital assets	<u>\$ 9,589,535</u>	<u>\$ (431,228)</u>	<u>\$ -</u>	<u>\$ 9,158,307</u>

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

Governmental activities:	
General government	\$ 19,626
Public safety	73,668
Public works	438,612
Recreation and culture	67,800
Total governmental activities	<u>\$ 599,706</u>
Business-type activities - Water and sewer	<u>\$ 569,395</u>

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

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

Fund Borrowed From	Fund Loaned To	Amount
General Fund	Water and Sewer Fund	\$ 214,753
Cemetery Fund	General Fund	115,770
	Total	<u>\$ 330,523</u>

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, 2019.

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, 2019.

June 30, 2019

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

The balance of amounts loaned to discretely presented component units is as follows:

Receivable	Payable	Amount
Agency Fund	Downtown Development Authority	\$ 798

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	\$ 98,250
Street Repair and Maintenance Fund	General Fund	115,000
	Local Streets Fund	155,431
	Water and Sewer Fund	<u>63,030</u>
	Total Street Repair and Maintenance Fund	333,461
Cemetery Fund	General Fund	8,243
Water and Sewer Fund	General Fund	5,800
Major Streets Fund	Street Repair and Maintenance Fund	147,939
Local Streets Fund	Street Repair and Maintenance Fund	<u>189,361</u>
	Total	<u>\$ 783,054</u>

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.

The Major Streets Fund and Local Streets Fund transferred funds to the Street Repair and Maintenance Fund to assist with a street project.

**Note 6 - Capital Leases**

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
2020	\$ 11,465
Less amount representing interest	<u>649</u>
Present value of net minimum lease payments	<u><u>\$ 10,816</u></u>

**Note 7 - Long-term Debt**

Long-term debt activity for the year ended June 30, 2019 can be summarized as follows:

**Governmental Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Accumulated compensated absences	\$ 151,263	\$ 2,386	\$ -	\$ 153,649	\$ 75,156

**Business-type Activities**

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Other debt:						
Revenue bonds - Series 2000A state	4.5-6.0%	\$ 300,000	\$ -	\$ (300,000)	\$ -	\$ -
Revenue bonds - Series 2009A water supply and sewage disposal system revenue bond	2.5%	1,170,000	-	(85,000)	1,085,000	85,000
Revenue bonds - Series 2010 DWRf bond	2.5%	<u>1,230,000</u>	<u>-</u>	<u>(90,000)</u>	<u>1,140,000</u>	<u>90,000</u>
Total bonds payable		2,700,000	-	(475,000)	2,225,000	175,000
Accumulated compensated absences		<u>41,045</u>	<u>-</u>	<u>(11,469)</u>	<u>29,576</u>	<u>11,202</u>
Total business-type activities		<u><u>\$ 2,741,045</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (486,469)</u></u>	<u><u>\$ 2,254,576</u></u>	<u><u>\$ 186,202</u></u>

**Revenue Bonds**

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Business-type activities utilize revenue bonds to finance the water and sewer system. The City has pledged substantially all of the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds listed below. 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 \$2,556,576. During the current year, net revenue of the system was \$726,402, compared to annual debt requirements of \$343,839. An additional payment of \$205,000 was made in the current year in order to pay off the Series 2000A revenue bonds.

**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		
	Other Debt		
	Principal	Interest	Total
2020	\$ 175,000	\$ 54,314	\$ 229,314
2021	185,000	49,876	234,876
2022	185,000	45,251	230,251
2023	195,000	40,564	235,564
2024	195,000	35,689	230,689
2025-2029	1,060,000	101,818	1,161,818
Thereafter	230,000	4,064	234,064
<b>Total</b>	<b>\$ 2,225,000</b>	<b>\$ 331,576</b>	<b>\$ 2,556,576</b>

**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, MI 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.

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

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.

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:

Date of member count	December 31, 2018
Inactive plan members or beneficiaries currently receiving benefits	35
Inactive plan members entitled to but not yet receiving benefits	20
Active plan members	27
	<hr/>
Total employees covered by the plan	<u>82</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, 2019, 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 5.83 percent of annual payroll for general employees, 14.57 percent of annual payroll for junior officers, and 9.57 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, 2019 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, 2018 measurement date.

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

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

Changes in Net Pension (Asset) Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension (Asset) Liability
<b>Balance at December 31, 2017</b>	\$ 7,440,892	\$ 8,091,834	\$ (650,942)
Changes for the year:			
Service cost	149,614	-	149,614
Interest	583,740	-	583,740
Differences between expected and actual experience	(496)	-	(496)
Contributions - Employer	-	160,866	(160,866)
Contributions - Employee	-	78,176	(78,176)
Net investment loss	-	(314,508)	314,508
Benefit payments, including refunds	(437,896)	(437,896)	-
Administrative expenses	-	(15,635)	15,635
Net changes	294,962	(528,997)	823,959
<b>Balance at December 31, 2018</b>	<u>\$ 7,735,854</u>	<u>\$ 7,562,837</u>	<u>\$ 173,017</u>

The plan's fiduciary net position represents 98 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, 2019, the City recognized pension expense of \$170,219.

At June 30, 2019, 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	\$ -	\$ 91,498
Net difference between projected and actual earnings on pension plan investments	575,250	-
Employer contributions to the plan subsequent to the measurement date	80,290	-
Total	<u>\$ 655,540</u>	<u>\$ 91,498</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
2020	\$ 112,728
2021	66,943
2022	113,424
2023	190,657
Total	<u>\$ 483,752</u>

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

**Actuarial Assumptions**

The total pension liability in the December 31, 2018 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 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; 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.

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, 2018 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
Global equity	55.50 %	6.15 %
Global fixed income	18.50	1.26
Real assets	13.50	7.22
Diversifying strategies	12.50	5.00

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

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

The following presents the net pension liability of the City, calculated using the discount rate of 8.0 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	\$ 952,277	\$ 173,017	\$ (493,692)

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



---

## Required Supplemental Information

---

Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes and administrative fees	\$ 1,226,359	\$ 1,226,359	\$ 1,211,664	\$ (14,695)
State-shared revenue and grants	680,157	680,157	701,987	21,830
Charges for services	72,252	72,252	89,009	16,757
Licenses and permits	132,269	132,269	127,986	(4,283)
Investment income	15,000	15,000	49,442	34,442
Other revenue	150,967	150,967	154,447	3,480
<b>Total revenue</b>	<b>2,277,004</b>	<b>2,277,004</b>	<b>2,334,535</b>	<b>57,531</b>
<b>Expenditures</b>				
Current services:				
General government:				
City Commission	58,200	71,600	65,710	5,890
City manager	140,017	145,082	139,001	6,081
Treasurer	130,114	130,114	124,413	5,701
Assessing	31,526	31,526	24,900	6,626
Clerk	69,402	46,532	41,393	5,139
Buildings and grounds	81,358	116,474	106,554	9,920
Elections	31,257	27,992	24,031	3,961
Property rentals	6,586	10,871	10,465	406
Other general government	15,500	17,660	10,978	6,682
Public safety:				
Police	1,037,543	1,023,733	992,648	31,085
Fire	94,274	100,074	109,538	(9,464)
Crossing guards	34,762	34,762	32,399	2,363
Building inspections and related	45,404	45,504	36,111	9,393
Public works:				
Streets	372,740	748,219	685,529	62,690
Cemetery maintenance	191,348	213,653	180,770	32,883
Recreation and culture	28,413	39,633	35,249	4,384
<b>Total expenditures</b>	<b>2,368,444</b>	<b>2,803,429</b>	<b>2,619,689</b>	<b>183,740</b>
<b>Excess of Expenditures Over Revenue</b>	<b>(91,440)</b>	<b>(526,425)</b>	<b>(285,154)</b>	<b>241,271</b>
<b>Other Financing Sources</b>				
Transfers in	122,800	122,800	129,043	6,243
Sale of capital assets	9,167	9,167	13,774	4,607
<b>Total other financing sources</b>	<b>131,967</b>	<b>131,967</b>	<b>142,817</b>	<b>10,850</b>
<b>Net Change in Fund Balance</b>	<b>40,527</b>	<b>(394,458)</b>	<b>(142,337)</b>	<b>252,121</b>
<b>Fund Balance - Beginning of year</b>	<b>1,984,321</b>	<b>1,984,321</b>	<b>1,984,321</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 2,024,848</b>	<b>\$ 1,589,863</b>	<b>\$ 1,841,984</b>	<b>\$ 252,121</b>

**City of Buchanan, Michigan**

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

**Year Ended June 30, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 359,204	\$ 359,204	\$ 465,134	\$ 105,930
Investment income	1,800	1,800	7,380	5,580
Other revenue	7,600	7,600	-	(7,600)
Total revenue	368,604	368,604	472,514	103,910
<b>Expenditures</b>				
Current services - Public works:				
Streets	341,780	542,673	438,776	103,897
Drainage	26,824	26,824	22,173	4,651
Total expenditures	368,604	569,497	460,949	108,548
<b>Net Change in Fund Balance</b>	-	(200,893)	11,565	212,458
<b>Fund Balance - Beginning of year</b>	411,386	411,386	411,386	-
<b>Fund Balance - End of year</b>	<b>\$ 411,386</b>	<b>\$ 210,493</b>	<b>\$ 422,951</b>	<b>\$ 212,458</b>

**City of Buchanan, Michigan**

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

**Year Ended June 30, 2019**

	Original and Final Budget	Actual	Variance with Amended Budget
<b>Revenue</b>			
Property taxes	\$ 82,700	\$ 86,154	\$ 3,454
Intergovernmental:			
Federal grants	31,115	27,674	(3,441)
State-shared revenue and grants	78,256	79,543	1,287
Farebox revenue	14,115	12,659	(1,456)
Capital grant	9,000	-	(9,000)
Investment income	1,500	1,203	(297)
Other revenue	-	3,286	3,286
Total revenue	216,686	210,519	(6,167)
<b>Expenditures</b> - Operating costs - Purchased transportation service and miscellaneous	216,686	208,022	8,664
<b>Net Change in Fund Balance</b>	-	2,497	2,497
<b>Fund Balance</b> - Beginning of year	112,867	112,867	-
<b>Fund Balance</b> - End of year	<u>\$ 112,867</u>	<u>\$ 115,364</u>	<u>\$ 2,497</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, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 337,052	\$ 337,052	\$ 336,016	\$ (1,036)
Investment income	1,000	1,000	5,413	4,413
Total revenue	338,052	338,052	341,429	3,377
<b>Expenditures</b> - Current - Public works - Street construction	338,052	716,352	480,924	235,428
<b>Excess of Expenditures Over Revenue</b>	-	(378,300)	(139,495)	238,805
<b>Other Financing Sources</b> - Transfers in	-	-	337,300	337,300
<b>Net Change in Fund Balance</b>	-	(378,300)	197,805	576,105
<b>Fund Balance</b> - Beginning of year	161,810	161,810	161,810	-
<b>Fund Balance</b> - End of year	<u>\$ 161,810</u>	<u>\$ (216,490)</u>	<u>\$ 359,615</u>	<u>\$ 576,105</u>

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

	Last Five Calendar Years				
	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service cost	\$ 149,614	\$ 148,776	\$ 145,371	\$ 134,606	\$ 127,212
Interest	583,740	572,661	562,901	544,130	527,997
Differences between expected and actual experience	(496)	(149,856)	(164,861)	(197,584)	-
Changes in assumptions	-	-	-	388,836	-
Benefit payments, including refunds	(437,896)	(429,107)	(417,110)	(452,165)	(474,532)
<b>Net Change in Total Pension Liability</b>	294,962	142,474	126,301	417,823	180,677
<b>Total Pension Liability - Beginning of year</b>	7,440,892	7,298,418	7,172,117	6,754,294	6,573,617
<b>Total Pension Liability - End of year</b>	<b>\$ 7,735,854</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	\$ 160,866	\$ 156,042	\$ 148,611	\$ 130,854	\$ 107,605
Contributions - Member	78,176	74,738	72,878	70,465	67,236
Net investment (loss) income	(314,508)	964,855	765,979	(105,298)	439,960
Administrative expenses	(15,635)	(15,279)	(15,125)	(15,513)	(16,097)
Benefit payments, including refunds	(437,896)	(429,107)	(417,110)	(452,165)	(474,532)
<b>Net Change in Plan Fiduciary Net Position</b>	(528,997)	751,249	555,233	(371,657)	124,172
<b>Plan Fiduciary Net Position - Beginning of year</b>	8,091,834	7,340,585	6,785,352	7,157,009	7,032,837
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 7,562,837</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 Liability (Asset) - Ending</b>	<b>\$ 173,017</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 (Asset)</b>	97.76 %	108.75 %	100.58 %	94.61 %	105.96 %
<b>Covered Payroll</b>	\$ 1,491,015	\$ 1,471,336	\$ 1,429,260	\$ 1,390,319	\$ 1,306,896
<b>City's Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	11.60 %	(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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 162,498	\$ 157,913	\$ 159,475	\$ 136,659	\$ 118,989	\$ 102,778	\$ 96,946	\$ 93,462	\$ 95,714	\$ 88,595
Contributions in relation to the actuarially determined contribution	162,498	157,913	159,475	136,659	118,989	102,778	96,946	93,462	95,714	88,595
<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 Payroll</b>	<b>\$ 1,547,564</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>Contributions as a Percentage of Covered Payroll</b>	<b>10.50 %</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>

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, 2018 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 reestablished 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 "expenditures" categories, rather than as "other financing 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, except that the Street Repair and Maintenance Fund budgeted for a fund balance deficit within its amended budget. The Fund had additional transfers in during the current year, which allowed the fund to show a positive fund balance amount at year end.

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, 2017 through September 30, 2018.

**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 - Fire	\$ 100,074	\$ 109,538	\$ (9,464)

**Pension Information**

**Changes in Assumptions**

During the year ended June 30, 2016, the actuary modified significant assumptions that affect the measurement of the total pension liability. The actuary adjusted the assumed annual rate of return down from 8.25 to 8.00 percent. The mortality tables were updated from the 1994 Group Mortality Table to a blend of the RP-2014 tables.



---

## Other Supplemental Information

---

Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2019

	Special Revenue Funds				Total
	Local Streets	Small Cities Program	Housing Grant	Cemetery	
<b>Assets</b>					
Cash and cash equivalents	\$ 1,217	\$ 342	\$ 150	\$ 5,813	\$ 7,522
Investments	331,162	-	22,000	193,126	546,288
Receivables:					
Other receivables	-	-	526	184	710
Due from other governments	23,452	-	-	-	23,452
Advances to other funds	-	-	-	115,770	115,770
Prepaid expenses	2,020	-	-	-	2,020
<b>Total assets</b>	<b>\$ 357,851</b>	<b>\$ 342</b>	<b>\$ 22,676</b>	<b>\$ 314,893</b>	<b>\$ 695,762</b>
<b>Liabilities</b>					
Accounts payable	\$ 2,189	\$ -	\$ -	\$ -	\$ 2,189
Accrued liabilities and other	1,337	-	-	-	1,337
Unearned revenue	-	-	22,676	-	22,676
<b>Total liabilities</b>	<b>3,526</b>	<b>-</b>	<b>22,676</b>	<b>-</b>	<b>26,202</b>
<b>Fund Balances</b>					
Nonspendable	2,020	-	-	-	2,020
Restricted	352,305	342	-	-	352,647
Committed	-	-	-	314,893	314,893
<b>Total fund balances</b>	<b>354,325</b>	<b>342</b>	<b>-</b>	<b>314,893</b>	<b>669,560</b>
<b>Total liabilities and fund balances</b>	<b>\$ 357,851</b>	<b>\$ 342</b>	<b>\$ 22,676</b>	<b>\$ 314,893</b>	<b>\$ 695,762</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, 2019**

	Special Revenue Funds				Total
	Local Streets	Small Cities Program	Housing Grant	Cemetery	
<b>Revenue</b>					
Intergovernmental - State- shared revenue and grants	\$ 134,789	\$ -	\$ -	\$ -	\$ 134,789
Investment income	9,305	-	-	8,557	17,862
Other revenue	-	-	-	6,052	6,052
Total revenue	144,094	-	-	14,609	158,703
<b>Expenditures</b>					
Current services - Public works:					
Streets	233,000	-	-	-	233,000
Drainage	19,999	-	-	-	19,999
Total expenditures	252,999	-	-	-	252,999
<b>Excess of Revenue (Under) Over Expenditures</b>	(108,905)	-	-	14,609	(94,296)
<b>Other Financing Sources (Uses)</b>					
Transfers in	155,431	-	-	-	155,431
Transfers out	(189,361)	-	-	(8,243)	(197,604)
Total other financing uses	(33,930)	-	-	(8,243)	(42,173)
<b>Net Change in Fund Balances</b>	(142,835)	-	-	6,366	(136,469)
<b>Fund Balances - Beginning of year</b>	497,160	342	-	308,527	806,029
<b>Fund Balances - End of year</b>	<u>\$ 354,325</u>	<u>\$ 342</u>	<u>\$ -</u>	<u>\$ 314,893</u>	<u>\$ 669,560</u>

**City of Buchanan, Michigan**

Other Supplemental Information  
Combining Statement of Assets and Liabilities  
Agency Funds

**June 30, 2019**

	Agency Fund	Tax Collection Fund	Repairs and Demolition Revolving Fund	Total Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 46,570	\$ 100	\$ -	\$ 46,670
Due from component units	798	-	-	798
Total assets	<b>\$ 47,368</b>	<b>\$ 100</b>	<b>\$ -</b>	<b>\$ 47,468</b>
<b>Liabilities</b>				
Due to other governmental units	\$ -	\$ 100	\$ -	\$ 100
Other liabilities	47,368	-	-	47,368
Total liabilities	<b>\$ 47,368</b>	<b>\$ 100</b>	<b>\$ -</b>	<b>\$ 47,468</b>