

CITY OF DURAND
Shiawassee County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2020

CITY OF DURAND
Shiawassee County, Michigan

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Shiawassee County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Durand
Durand, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan (the "City"), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 judgement, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of June 30, 2020, the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and employees' retirement system and retiree health benefits schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 supplementary 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual statements and schedules and component unit statements, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Durand's internal control over financial reporting and compliance.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, cursive font, with 'LLP' in a smaller, simpler font to the right.

Port Huron, Michigan
December 1, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand, Michigan's (the "City") 2020 annual report is presented in conformity with the requirements of Governmental Accounting Standards Board Statement No. 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and internal service funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities - most of the City's basic services such as the police, fire, public works, parks and recreation, general administration, and debt retirement are included. Property taxes, state-shared revenues, and charges for services provide the funding.

Business-type Activities - the City charges fees to customers to help cover the costs of certain services it provides. The City's water, wastewater, and refuse operations are treated as business-type activities.

Component Unit - although separate, the Downtown Development Authority is important because the City is financially accountable for it.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has two types of funds:

Governmental Funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. For 2020, the City had 9 governmental funds.

Proprietary Funds - Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The City maintains two different types of proprietary funds.

Enterprise Funds - are used to report services for which the City charges customers a fee for those services. The City has three enterprise funds, the Water, Wastewater, and Refuse Service Funds.

Internal Service Funds - reports activities that provide services and supplies to other City programs. The City utilizes two internal service funds – an Equipment Revolving and an Employee Benefit Fund.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City has combined total net position of \$13,960,736. This is an increase of \$188,891 from 2019. Governmental activities comprise \$6,270,762 and business-type activities make up \$7,689,974 of the total net position. In a condensed format, the table below shows net position as of June 30, 2020 and 2019.

Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Assets:				
Current assets	\$ 2,708,485	\$ 4,407,702	\$ 1,136,812	\$ 1,165,554
Restricted assets	1,594	1,576	268,920	239,744
Capital assets	<u>11,343,337</u>	<u>9,631,302</u>	<u>17,777,434</u>	<u>17,969,328</u>
Total assets	<u>14,053,416</u>	<u>14,040,580</u>	<u>19,183,166</u>	<u>19,374,626</u>
Deferred Outflows of Resources	<u>374,505</u>	<u>471,171</u>	<u>74,994</u>	<u>95,693</u>
Liabilities :				
Current liabilities	210,934	72,212	178,326	103,794
Non-current liabilities	<u>7,766,375</u>	<u>8,152,479</u>	<u>11,347,108</u>	<u>11,674,308</u>
Total liabilities	<u>7,977,309</u>	<u>8,224,691</u>	<u>11,525,434</u>	<u>11,778,102</u>
Deferred Inflows of Resources	<u>179,850</u>	<u>168,600</u>	<u>42,752</u>	<u>38,832</u>
Net Position:				
Net investment in capital assets	7,706,716	7,828,791	7,324,772	7,206,687
Restricted	1,276,166	1,067,180	268,920	239,744
Unrestricted (Deficit)	<u>(2,712,120)</u>	<u>(2,777,511)</u>	<u>96,282</u>	<u>206,954</u>
Total net position	<u>\$ 6,270,762</u>	<u>\$ 6,118,460</u>	<u>\$ 7,689,974</u>	<u>\$ 7,653,385</u>

The City's governmental activities experienced an increase in net position of \$152,302. The business-type activities experienced an increase in net position of \$36,589.

The following table shows the changes in net position for 2020 and 2019:

Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenue				
Program Revenue -				
Charges for services	\$ 198,241	\$ 237,657	\$ 2,024,780	\$ 2,001,702
Operating grants and contributions	410,298	447,248	-	8,500
Capital grants and contributions	20,894	441,080	320,213	-
General Revenue -				
Property taxes	1,521,217	1,593,814	-	-
State-shared revenue	427,068	449,784	-	-
Local community stabilization	25,623	24,376	-	-
Franchise fees	47,459	48,355	-	-
Unrestricted investment earnings	7,862	15,214	35,711	42,074
Gain on sale of property	8,600	235,350	-	-
Total Revenue	<u>2,667,262</u>	<u>3,492,878</u>	<u>2,380,704</u>	<u>2,052,276</u>
Program Expenses				
General government	307,400	(266,547)	-	-
Public safety	798,786	107,900	-	-
Public works	1,054,976	119,010	-	-
Health & welfare	70,703	75,480	-	-
Recreation and culture	150,272	92,998	-	-
Community & economic Development	27,936	8,285	-	-
Interest on long-term debt	98,285	107,109	-	-
Water supply system	-	-	862,072	527,884
Wastewater	-	-	1,256,436	937,753
Refuse services	-	-	232,209	218,039
Total Program Expenses	<u>2,508,358</u>	<u>244,235</u>	<u>2,350,717</u>	<u>1,683,676</u>
Increase in Net Position Before Transfers	158,904	3,248,643	29,987	368,600
Transfers	(6,602)	-	6,602	-
Increase in Net Position	152,302	3,248,643	36,589	368,600
Net Position at Beginning of Year	<u>6,118,460</u>	<u>2,869,817</u>	<u>7,653,385</u>	<u>7,284,785</u>
Net Position at End of Year	<u>\$ 6,270,762</u>	<u>\$ 6,118,460</u>	<u>\$ 7,689,974</u>	<u>\$ 7,653,385</u>

Governmental Activities

Revenues for governmental activities totaled \$2,667,262 in 2020. Of this amount, \$1,521,217 or 57% of total revenue was received from taxes, which was a decrease of \$72,597, followed by state-shared revenue of \$427,068 or 16% of total revenue, a decrease of \$22,716.

Business-type Activities

The City has three business-type activities: water, wastewater, and refuse operations. The City operates its own water and sewage treatment facility and contracts for refuse collections. The Wastewater Fund had a net increase in net position of \$103,033. The Water and Refuse Service Funds experienced net decreases in net position of \$50,933 and \$15,511, respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund ended 2020 with a fund balance of \$936,556, of which \$3,853 was nonspendable, \$28,897 was restricted, \$365,477 was committed, with the remaining amount of \$538,329 unassigned. This is an increase of \$218,154 from the prior year.

The City's other major funds, the Major Street Fund, Local Street Fund, and Street Millage Debt Fund ended 2020 with fund balances of \$714,659, \$289,685, and \$5,888, respectively. These were increases of \$186,162 for the Major Street Fund, \$58,735 in the Local Street Fund, and \$5,627 in the Street Millage Debt Fund from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. During the year, the following significant amendments were made in the General Fund:

- Other Revenue was decreased from \$78,216 to \$40,460 as a result of decreased contributions and reimbursements.
- General Administration expenditures were increased from \$284,668 to \$452,514 as a result of setting aside a contingency reserve for unforeseen items.
- Department of Public Works expenditures were decreased from \$350,669 to \$304,500 as a result of budgeted projects not taking place.
- Parks and Recreation expenditures were decreased from \$150,355 to \$62,050 as a result of anticipated capital outlay not taking place.
- The sale of property was decreased from \$235,350 to \$0 as a result of the sale taking place towards the end of fiscal year 2019.
- Transfers out was increased from \$2,400 to \$54,696 to subsidize operations in the Building and Equipment Revolving Funds.

There were two significant differences between the final budget and actual amounts. The first difference was that the Department of Public Works was under budget by \$29,509 as a result of anticipated repairs and maintenance and capital outlay not taking place. The other variance was General Administration and was under budget by \$162,949, primarily because the contingency reserve was not needed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City had \$29,120,771 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2020. The investment in capital assets includes land, building and building improvements, infrastructure, machinery and equipment, vehicles, and water and sewer systems. During the year, the City added \$3,043,271 of capital assets before taking into account depreciation and deletions. The City added \$2,484,260 to the governmental activities. Major additions included a new police interceptor, infrastructure improvements, and a front-end loader. The business-type activities added \$559,011, mainly due to the construction of the Storm Sewer Project.

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

Long-term Liabilities

At June 30, 2020, the City had \$14,147,679 in long-term liabilities, compared to \$14,844,158 at June 30, 2019. The City added a \$176,901 installment purchase for a front-end loader and made scheduled payments on long-term liabilities.

Additional information on the City's long-term liabilities can be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For fiscal 2020-21, the City Council adopted a General Fund budget with estimated revenues and expenditures of \$2,198,600.

It is important to note that the coronavirus (COVID-19) pandemic is still a major issue throughout the world, and the cases in the State of Michigan have recently been on the increase, resulting in various restrictions on certain activities and organizations. The impact on expenses and revenues cannot be estimated at this time; however, management will continue to monitor the effects and make adjustments to activities and the budget when necessary.

CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our citizens, stakeholders, 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 any questions about this report or need additional financial information, we invite you to contact the City of Durand administration at City Hall (989) 288-3113.

BASIC FINANCIAL STATEMENTS

CITY OF DURAND, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	DDA
Assets:				
Cash and cash equivalents	\$ 2,423,808	\$ 685,530	\$ 3,109,338	\$ 79,124
Receivables	243,465	409,672	653,137	-
Prepaid expenses	33,987	-	33,987	-
Internal balances	2,984	(2,984)	-	-
Inventory	4,241	44,594	48,835	-
Restricted assets -				
Cash and cash equivalents	1,594	268,920	270,514	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	4,118,893	680,354	4,799,247	60,000
Assets being depreciated	7,224,444	17,097,080	24,321,524	235,190
Total Assets	<u>14,053,416</u>	<u>19,183,166</u>	<u>33,236,582</u>	<u>374,314</u>
Deferred Outflows of Resources:				
Related to pension plan	313,014	59,622	372,636	-
Related to OPEB plan	61,491	15,372	76,863	-
Total Deferred Outflows of Resources	<u>374,505</u>	<u>74,994</u>	<u>449,499</u>	<u>-</u>
Liabilities:				
Payables and accrued liabilities	188,838	115,738	304,576	-
Accrued interest	22,096	40,438	62,534	3,860
Deposits	-	22,150	22,150	-
Non-current liabilities -				
Net pension liability	2,168,195	412,990	2,581,185	-
Net OPEB liability	1,907,695	476,924	2,384,619	-
Due within one year	353,353	319,251	672,604	60,000
Due in more than one year	3,337,132	10,137,943	13,475,075	485,000
Total Liabilities	<u>7,977,309</u>	<u>11,525,434</u>	<u>19,502,743</u>	<u>548,860</u>
Deferred Inflows of Resources:				
Related to pension plan	37,176	7,082	44,258	-
Related to OPEB plan	142,674	35,670	178,344	-
Total Deferred Inflows of Resources	<u>179,850</u>	<u>42,752</u>	<u>222,602</u>	<u>-</u>
Net Position:				
Net investment in capital assets	7,706,716	7,324,772	15,031,488	220,190
Restricted -				
Debt service	5,888	223,320	229,208	-
Capital improvements	-	45,600	45,600	-
Streets	1,178,095	-	1,178,095	-
Public safety	9,741	-	9,741	-
Health and welfare	53,545	-	53,545	-
Other	28,897	-	28,897	10,241
Unrestricted (deficit)	<u>(2,712,120)</u>	<u>96,282</u>	<u>(2,615,838)</u>	<u>(404,977)</u>
Total Net Position (Deficit)	<u>\$ 6,270,762</u>	<u>\$ 7,689,974</u>	<u>\$ 13,960,736</u>	<u>\$ (174,546)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 307,400	\$ 124,578	\$ 8,000	\$ 20,894
Public safety	798,786	68,125	12,560	-
Public works	1,054,976	1,703	389,738	-
Health and welfare	70,703	-	-	-
Recreation and cultural	150,272	3,835	-	-
Community and economic development	27,936	-	-	-
Interest on long-term debt	98,285	-	-	-
Total Governmental Activities	<u>2,508,358</u>	<u>198,241</u>	<u>410,298</u>	<u>20,894</u>
Business-type Activities:				
Water supply system	862,072	786,293	-	-
Wastewater	1,256,436	1,021,789	-	320,213
Refuse services	232,209	216,698	-	-
Total Business-type Activities	<u>2,350,717</u>	<u>2,024,780</u>	<u>-</u>	<u>320,213</u>
Total Primary Government	<u>\$ 4,859,075</u>	<u>\$ 2,223,021</u>	<u>\$ 410,298</u>	<u>\$ 341,107</u>
Component Unit				
Downtown Development Authority	<u>\$ 57,360</u>	<u>\$ 7,136</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:
 Property taxes
 Grants and contributions not restricted to specific programs -
 State-shared revenue
 Franchise fees
 Other
 Unrestricted investment income
 Gain of sale of property
 Transfers in (out)
 Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit (DDA)
\$(153,928)	\$ -	\$(153,928)	\$ -
(718,101)	-	(718,101)	-
(663,535)	-	(663,535)	-
(70,703)	-	(70,703)	-
(146,437)	-	(146,437)	-
(27,936)	-	(27,936)	-
(98,285)	-	(98,285)	-
<u>(1,878,925)</u>	<u>-</u>	<u>(1,878,925)</u>	<u>-</u>
-	(75,779)	(75,779)	-
-	85,566	85,566	-
-	(15,511)	(15,511)	-
<u>-</u>	<u>(5,724)</u>	<u>(5,724)</u>	<u>-</u>
<u>(1,878,925)</u>	<u>(5,724)</u>	<u>(1,884,649)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,224)</u>
1,521,217	-	1,521,217	79,014
427,068	-	427,068	-
47,459	-	47,459	-
25,623	-	25,623	8,806
7,862	35,711	43,573	-
8,600	-	8,600	-
(6,602)	6,602	-	-
<u>2,031,227</u>	<u>42,313</u>	<u>2,073,540</u>	<u>87,820</u>
152,302	36,589	188,891	37,596
<u>6,118,460</u>	<u>7,653,385</u>	<u>13,771,845</u>	<u>(212,142)</u>
<u>\$ 6,270,762</u>	<u>\$ 7,689,974</u>	<u>\$ 13,960,736</u>	<u>\$(174,546)</u>

CITY OF DURAND, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General	Major Street	Local Street	Street Millage Debt
Assets:				
Cash and cash equivalents	\$ 875,307	\$ 700,379	\$ 332,949	\$ 5,888
Accounts and interest receivable	-	-	-	-
Due from other governmental units	91,623	48,645	43,860	-
Due from other funds	2,984	-	-	-
Prepays and deposits	3,853	-	-	-
Inventory	-	1,085	1,085	-
Restricted assets -				
Cash and cash equivalents	1,594	-	-	-
Total Assets	\$ 975,361	\$ 750,109	\$ 377,894	\$ 5,888
 Liabilities:				
Accounts payable	\$ 19,357	\$ 34,839	\$ 88,022	\$ -
Accrued liabilities	19,448	611	187	-
Total Liabilities	38,805	35,450	88,209	-
 Fund Balances:				
Nonspendable	3,853	1,085	1,085	-
Restricted	28,897	713,574	288,600	5,888
Committed	365,477	-	-	-
Unassigned	538,329	-	-	-
Total Fund Balances	936,556	714,659	289,685	5,888
Total Liabilities and Fund Balance	\$ 975,361	\$ 750,109	\$ 377,894	\$ 5,888

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 266,395	\$ 2,180,918
5,008	5,008
-	184,128
-	2,984
-	3,853
-	2,170
-	1,594
\$ 271,403	\$ 2,380,655
\$ 1,295	\$ 143,513
-	20,246
1,295	163,759
-	6,023
237,037	1,273,996
33,071	398,548
-	538,329
270,108	2,216,896
\$ 271,403	\$ 2,380,655

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Fund Balances - total governmental funds	\$	2,216,896
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.		
Capital assets		15,352,472
Accumulated depreciation	(4,868,818)
Internal service funds are used by management to charge costs of the City's equipment revolving and employee benefit activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		697,214
Certain pension/OPEB contributions and changes in pension/OPEB plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position, but are reported as expenditures in the governmental funds.		
Deferred outflows of resources	\$	374,505
Deferred inflows of resources	(179,850)
		194,655
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the governmental funds.		
Bonds/notes/installment purchase payable	(3,229,291)
Net pension liability	(2,168,195)
Net OPEB liability	(1,907,695)
Accrued interest	(16,476)
Net Position of governmental activities	\$	<u>6,270,762</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	General	Major Street	Local Street	Street Millage Debt
Revenues:				
Taxes	\$ 1,095,535	\$ -	\$ -	\$ 383,684
Licenses and permits	47,459	-	-	-
Intergovernmental	470,138	272,293	117,445	6,191
Charges for services	56,383	-	-	-
Fines and forfeits	6,211	-	-	-
Interest and rent	36,307	992	-	-
Special assessments	-	-	-	-
Other	44,150	-	-	-
Total Revenues	<u>1,756,183</u>	<u>273,285</u>	<u>117,445</u>	<u>389,875</u>
Expenditures:				
General government	259,166	-	-	-
Public safety	682,762	-	-	-
Public works	403,913	701,544	1,711,880	-
Health and welfare	-	-	-	-
Recreation and cultural	58,659	-	-	-
Community and economic development	27,936	-	-	-
Debt service -				
Principal	51,729	-	-	298,000
Interest and issuance cost	15,428	-	-	86,248
Total Expenditures	<u>1,499,593</u>	<u>701,544</u>	<u>1,711,880</u>	<u>384,248</u>
Revenues over (under) expenditures	<u>256,590</u>	<u>(428,259)</u>	<u>(1,594,435)</u>	<u>5,627</u>
Other Financing Sources (Uses):				
Sale of property	8,600	-	-	-
Transfers in from other funds	-	624,421	1,653,170	-
Transfers out to other funds	(47,036)	(10,000)	-	-
Total Other Financing Sources (Uses)	<u>(38,436)</u>	<u>614,421</u>	<u>1,653,170</u>	<u>-</u>
Net change in Fund Balance	218,154	186,162	58,735	5,627
Fund Balances at beginning of year	<u>718,402</u>	<u>528,497</u>	<u>230,950</u>	<u>261</u>
Fund Balances at end of year	<u>\$ 936,556</u>	<u>\$ 714,659</u>	<u>\$ 289,685</u>	<u>\$ 5,888</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 83,457	\$ 1,562,676
26,845	74,304
8,687	874,754
2,615	58,998
250	6,461
-	37,299
1,693	1,693
-	44,150
<u>123,547</u>	<u>2,660,335</u>
-	259,166
50,892	733,654
426	2,817,763
67,479	67,479
-	58,659
-	27,936
-	349,729
-	101,676
<u>118,797</u>	<u>4,416,062</u>
<u>4,750</u>	<u>(1,755,727)</u>
-	8,600
14,000	2,291,591
<u>(2,274,193)</u>	<u>(2,331,229)</u>
<u>(2,260,193)</u>	<u>(31,038)</u>
(2,255,443)	(1,786,765)
<u>2,525,551</u>	<u>4,003,661</u>
<u>\$ 270,108</u>	<u>\$ 2,216,896</u>

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Net change in fund balances - total governmental funds	\$(1,786,765)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	2,257,005
Depreciation expense	(490,630)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Special assessments	(1,673)
<p>The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current resources of governmental funds. Neither transaction, however, has any effect on net position.</p>	
Principal payments on long-term liabilities	352,401
Decrease in accrued interest	719
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.</p>	
Increase in net pension liability	(87,763)
Change in pension/OPEB expense related to deferred items related to the pension/OPEB plans	(107,915)
Decrease in net OPEB liability	97,046
<p>Internal service funds are used by management to charge costs of the City's equipment revolving and employee benefit activities. The net revenues (expenses) attributable to those funds is reported with governmental activities in the statement of net position.</p>	
	(80,123)
Change in net position of governmental activities	<u>\$ 152,302</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				Governmental
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
Assets:					
Current Assets -					
Cash and cash equivalents	\$ 309,055	\$ 376,475	\$ -	\$ 685,530	\$ 242,890
Receivables	155,209	241,899	12,564	409,672	54,329
Inventory	43,319	1,275	-	44,594	2,071
Prepaid expenses	-	-	-	-	30,134
Total Current Assets	<u>507,583</u>	<u>619,649</u>	<u>12,564</u>	<u>1,139,796</u>	<u>329,424</u>
Restricted Assets -					
Cash and cash equivalents	<u>83,826</u>	<u>185,094</u>	<u>-</u>	<u>268,920</u>	<u>-</u>
Capital Assets -					
Property, plant, and equipment	9,835,507	18,805,630	-	28,641,137	2,911,624
Less - accumulated depreciation	(3,698,502)	(7,165,201)	-	#####	(2,051,941)
Total Capital Assets, Net	<u>6,137,005</u>	<u>11,640,429</u>	<u>-</u>	<u>17,777,434</u>	<u>859,683</u>
Total Assets	<u>6,728,414</u>	<u>12,445,172</u>	<u>12,564</u>	<u>19,186,150</u>	<u>1,189,107</u>
Deferred Outflows of Resources:					
Related to pension plan	29,811	29,811	-	59,622	-
Related to OPEB plan	7,686	7,686	-	15,372	-
	<u>37,497</u>	<u>37,497</u>	<u>-</u>	<u>74,994</u>	<u>-</u>
Liabilities:					
Current Liabilities -					
Accounts payable	45,510	62,470	-	107,980	24,747
Accrued expenses	1,777	5,981	-	7,758	332
Accrued interest	15,892	24,546	-	40,438	5,620
Due to other funds	-	-	2,984	2,984	-
Customer deposits	22,150	-	-	22,150	-
Capital lease payable (current portion)	39,940	52,657	-	92,597	-
Bonds/Notes payable (current portion)	46,000	180,654	-	226,654	222,735
Total Current Liabilities	<u>171,269</u>	<u>326,308</u>	<u>2,984</u>	<u>500,561</u>	<u>253,434</u>
Long-term Liabilities -					
Accrued vacation and sick	2,266	2,266	-	4,532	53,864
Net pension liability	206,495	206,495	-	412,990	-
Net OPEB liability	238,462	238,462	-	476,924	-
Capital lease payable (net of current portion)	610,678	477,079	-	1,087,757	-
Bonds/Notes payable (net of current portion)	2,427,000	6,618,654	-	9,045,654	184,595
Total Long-term Liabilities	<u>3,484,901</u>	<u>7,542,956</u>	<u>-</u>	<u>11,027,857</u>	<u>238,459</u>
Total Liabilities	<u>3,656,170</u>	<u>7,869,264</u>	<u>2,984</u>	<u>11,528,418</u>	<u>491,893</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				Governmental
	Water	Wastewater	Refuse Service	Total	Activities Internal Service Funds
Deferred Inflows of Resources:					
Related to pension plan	\$ 3,541	\$ 3,541	\$ -	\$ 7,082	\$ -
Related to OPEB plan	17,835	17,835	-	35,670	-
Total Deferred Inflows of Resources	<u>21,376</u>	<u>21,376</u>	<u>-</u>	<u>42,752</u>	<u>-</u>
Net Position:					
Net investment in capital assets	3,013,387	4,311,385	-	7,324,772	452,353
Restricted	83,826	185,094	-	268,920	-
Unrestricted (Deficit)	(8,848)	95,550	9,580	96,282	244,861
Total Net Position	<u>\$ 3,088,365</u>	<u>\$ 4,592,029</u>	<u>\$ 9,580</u>	<u>\$ 7,689,974</u>	<u>\$ 697,214</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 746,179	\$ 974,897	\$ 211,368	\$ 1,932,444	\$ 716,560
Other	40,114	46,892	5,330	92,336	29,209
Total Operating Revenues	<u>786,293</u>	<u>1,021,789</u>	<u>216,698</u>	<u>2,024,780</u>	<u>745,769</u>
Operating Expenses:					
Personal services	150,293	173,011	-	323,304	581,528
Pension and OPEB expense	8,539	8,538	-	17,077	-
Administrative expenses	205,000	205,000	40,000	450,000	40,000
Supplies and postage	15,908	40,187	2,530	58,625	28,093
Other services	150,997	149,906	189,679	490,582	107,798
Depreciation	239,063	511,842	-	750,905	147,787
Total Operating Expenses	<u>769,800</u>	<u>1,088,484</u>	<u>232,209</u>	<u>2,090,493</u>	<u>905,206</u>
Operating income (loss)	<u>16,493</u>	<u>(66,695)</u>	<u>(15,511)</u>	<u>(65,713)</u>	<u>(159,437)</u>
Non-Operating Revenues (Expenses):					
Gain on sale of assets	-	-	-	-	42,440
Interest income	140	3,324	-	3,464	432
Interest subsidy	18,104	14,143	-	32,247	-
Interest expense	<u>(92,272)</u>	<u>(167,952)</u>	<u>-</u>	<u>(260,224)</u>	<u>(10,742)</u>
Total Non-Operating Revenues (Expenses)	<u>(74,028)</u>	<u>(150,485)</u>	<u>-</u>	<u>(224,513)</u>	<u>32,130</u>
Net loss before capital contributions and transfers	<u>(57,535)</u>	<u>(217,180)</u>	<u>(15,511)</u>	<u>(290,226)</u>	<u>(127,307)</u>
Capital Contributions	<u>-</u>	<u>320,213</u>	<u>-</u>	<u>320,213</u>	<u>14,148</u>
Net income (loss) before transfers	<u>(57,535)</u>	<u>103,033</u>	<u>(15,511)</u>	<u>29,987</u>	<u>(113,159)</u>
Transfers in	<u>6,602</u>	<u>-</u>	<u>-</u>	<u>6,602</u>	<u>33,036</u>
Change in Net Position	<u>(50,933)</u>	<u>103,033</u>	<u>(15,511)</u>	<u>36,589</u>	<u>(80,123)</u>
Net Position at beginning of year	<u>3,139,298</u>	<u>4,488,996</u>	<u>25,091</u>	<u>7,653,385</u>	<u>777,337</u>
Net Position at end of year	<u>\$ 3,088,365</u>	<u>\$ 4,592,029</u>	<u>\$ 9,580</u>	<u>\$ 7,689,974</u>	<u>\$ 697,214</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				Governmental
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 779,907	\$ 1,010,369	\$ 213,920	\$ 2,004,196	\$ 33,314
Cash receipts (payments) from interfund services	(205,000)	(205,000)	(40,000)	(450,000)	716,560
Cash payments to suppliers	(126,605)	(155,603)	(192,059)	(474,267)	(605,090)
Cash payments to employees	(150,678)	(173,411)	-	(324,089)	(103,404)
Net Cash Provided by (Used in) Operating Activities	<u>297,624</u>	<u>476,355</u>	<u>(18,139)</u>	<u>755,840</u>	<u>41,380</u>
Cash Flows From Noncapital Financing Activities:					
Due from/to other funds	-	-	2,984	2,984	-
Transfers from other fund	<u>6,602</u>	<u>-</u>	<u>-</u>	<u>6,602</u>	<u>33,036</u>
Net Cash Provided by Noncapital Financing Activities	<u>6,602</u>	<u>-</u>	<u>2,984</u>	<u>9,586</u>	<u>33,036</u>
Cash Flows From Capital and Related Financing Activities:					
Lease payments	(37,581)	(49,744)	-	(87,325)	-
Bond/Note proceeds	-	-	-	-	176,901
Bond/Note payments	(45,000)	(185,654)	-	(230,654)	(205,810)
Interest paid on long term debt	(93,045)	(170,005)	-	(263,050)	(11,904)
Interest subsidy	18,104	14,143	-	32,247	-
Proceeds from sale of capital assets	-	-	-	-	123,339
Capital grant proceeds	-	289,691	-	289,691	14,148
Acquisition of capital assets	<u>(93,633)</u>	<u>(465,378)</u>	<u>-</u>	<u>(559,011)</u>	<u>(227,255)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(251,155)</u>	<u>(566,947)</u>	<u>-</u>	<u>(818,102)</u>	<u>(130,581)</u>
Cash Flows From Investing Activities:					
Interest earned	<u>140</u>	<u>3,324</u>	<u>-</u>	<u>3,464</u>	<u>432</u>
Net Increase (Decrease) in Cash and Cash Equivalents	53,211	(87,268)	(15,155)	(49,212)	(55,733)
Cash and cash equivalents at beginning of year	<u>339,670</u>	<u>648,837</u>	<u>15,155</u>	<u>1,003,662</u>	<u>298,623</u>
Cash and cash equivalents at end of year	<u>\$ 392,881</u>	<u>\$ 561,569</u>	<u>\$ -</u>	<u>\$ 954,450</u>	<u>\$ 242,890</u>

CITY OF DURAND, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Refuse Service</u>	<u>Total</u>	<u>Activities Internal Service Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used in) Operating Activities:					
Operating income (loss)	\$ 16,493	\$(66,695)	\$(15,511)	\$(65,713)	\$(159,437)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -					
Depreciation	239,063	511,842	-	750,905	147,787
Change in assets and liabilities:					
Receivable	(6,386)	(11,570)	(2,778)	(20,734)	4,105
Prepaid and deposits	-	150	150	300	20,925
Inventory	(1,852)	28	-	(1,824)	20
Deferred outflows of resources	10,350	10,349	-	20,699	-
Deferred inflows of resources	1,960	1,960	-	3,920	-
Accounts payable/accrued expenses	37,996	30,291	-	68,287	27,980
Net Cash Provided by (Used in) Operating Activities	<u>\$ 297,624</u>	<u>\$ 476,355</u>	<u>\$(18,139)</u>	<u>\$ 755,840</u>	<u>\$ 41,380</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2020

	Tax Agency Fund
ASSETS:	
Cash and cash equivalents	\$ 4,623
LIABILITIES:	
Due to other governmental units	\$ 4,623

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The City of Durand, Michigan (the “City”), was incorporated March 14, 1932 under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

DISCRETELY PRESENTED COMPONENT UNIT -

Downtown Development Authority (DDA) - The Downtown Development Authority (DDA) was established in 1991. The DDA is organized under P.A. 197 of 1975. The purpose of the DDA is to revitalize and prevent deterioration of the central business district, to encourage historic preservation, authorize the acquisition and disposal of interests in real and personal property, seek out and attract new business interest, authorize the creation and implementation of redevelopment plans in the district, promote economic growth of the district, and implement programs to eliminate the further decline of properties and their values in the district.

The DDA is reported discretely to emphasize that it is legally separate from the City. The DDA Board is comprised of up to thirteen members and one ex-officio member appointed by the Mayor with City Council’s approval. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The DDA must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Durand City Council.

RELATED ORGANIZATION -

Durand Union Station, Inc.- is a nonprofit 501(c)(3) corporation which was organized for the development and operation and maintenance of the Durand Union Station. The Durand Union Station is owned by the City and is designated as a historical landmark which is also in the State of Michigan Railroad History Museum. Although the building is owned by the City, the financial statements of the Durand Union Station, Inc. (DUSI) are not included in the City’s financial statements since the City Council is not fiscally responsible for the operations and the City appoints only two (2) of a minimum of seven (7) board members, and therefore, does not have control of the organization.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and Fund Financial Statements -

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 a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension benefits, and claims and judgements, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1 and payable at that time, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The City reports the following major governmental funds:

General Fund - is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - is a special revenue fund used to account for Act 51 money and other related revenues restricted for major street maintenance and improvements.

Local Street Fund - is a special revenue fund used to account for ACT 51 money and other related revenues restricted for local streets maintenance and improvements.

Street Millage Debt Fund - is a debt service fund used to account for and report financial resources that are restricted for the payment of street debt.

The City reports the following major proprietary funds:

Water Fund - is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund - is used to account for sanitary sewer services provided to the residential and commercial users.

Refuse Service Fund - is used to account for the operations and activities of garbage collection and recycling for residential customers within the City.

Additionally, the City reports the following fund types -

Governmental Fund Types -

Special Revenue Funds - are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt services or capital projects.

Capital Projects Funds - are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlay including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - are used to account for and report financial resources that are restricted to expenditures for principal and interest on debt.

Proprietary Fund Type -

Internal Service Funds - are used to account for the costs of operating and maintaining the City's equipment and for charging the costs of fringes to the various funds. Charges are made to other funds based on equipment used and fringes provided.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses from enterprise and internal service funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first then unrestricted resources as they are needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance -

Deposits and Investments -

The City's cash and cash equivalents are considered to be cash on hand and demand deposits. The investment pools have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value; which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances by the General Fund are reported as nonspendable to indicate that they are not available for appropriation and are not expendable available financial resources.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories and Prepaid Items -

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except Department of Public Works (DPW) supplies and materials, are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Property Taxes -

Taxes are levied on July 1 (the lien date) based on the taxable value of property located in the City as of the preceding December 31 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for Shiawassee County (the "County"), Shiawassee intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

The City is permitted by state statute to levy taxes of 16.5205 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 16.5205 mills for general governmental purposes plus 6.2000 mills for debt service, 1.3500 mills for ambulance services, and 0.2000 for transportation.

All delinquent real property taxes, utility charges and special assessments become liens against the related property and are reimbursed by the County's Delinquent Tax Revolving Fund. The County will, however, charge back to the City any amounts not collected at the end of three years.

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 columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by the Governmental Accounting Standards Board (GASB) Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property, plant, and equipment of the primary government and discretely presented component unit are depreciated using the straight-line method over the following estimated useful lives:

	Primary Government	Component Unit (DDA)
Buildings and improvements	15-50	15-30
Infrastructure	5-50	30-50
Machinery and equipment	3-30	5-30
Vehicles	3-12	-
Water and wastewater system	5-50	-

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result, these amounts are appropriately accounted for as a liability in the enterprise and internal service funds.

Long-term Liabilities -

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension -

The City offers pension benefits to retirees. 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, 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 of the pension plan are reported at fair value.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Other Postemployment Benefits (OPEB) -

The City offers retiree healthcare benefits to certain employees. The City records a net OPEB liability for the difference between the total liability, calculated by the actuary, and the OPEB plan's fiduciary net position. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense information about the fiduciary net position of the OPEB plan, and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments of the OPEB plan are reported at fair value.

Deferred Outflows/Inflows of Resources -

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The City reports deferred outflows of resources related to the net pension and net other postemployment benefit (OPEB) liabilities.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The City reports deferred inflows of resources related to the net pension and net OPEB liabilities.

Fund Balance -

In the fund financial statements, governmental funds reported fund balance in one or more of the following classifications:

Nonspendable fund balance - the portion of fund balance that is not in a spendable form or is required to be maintained intact.

Restricted fund balance - the portion of fund balance that is mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action, to establish, modify or rescind, at the highest level of decision-making authority (City Council).

Assigned fund balance - the portion of fund balance that reflects the City's intended use of resources. Such intent currently must be determined by the City Council. Also, amounts in excess of nonspendable, restricted and committed fund balance in funds other than the General Fund is reported as assigned.

Unassigned fund balance - the portion of fund balance in the General Fund that cannot be classified into one of the four categories above.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

When different classifications of fund balance are present, it is the City's policy that expenditures are to be spent from restricted fund balance first, if appropriate, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The City Council adopted a "minimum fund balance" policy for the City's General Fund that specifies the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least 20% of the average of the past three (3) fiscal years' General Fund expenses, except in the case of emergency or financial distress as directed by the Durand City Council. As of June 30, 2020, the City is in compliance with this requirement.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements -

GASB has issued the following statements that may have an impact on the City's financial statements when adopted. The City is currently evaluating the implications of the pronouncements.

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017, and will become effective for the City's June 30, 2021 fiscal year. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 87, *Leases*, was issued in June 2017 and will become effective for the City's June 30, 2022 fiscal year. The objective of the statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that were previously 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 of 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, thereby enhancing the relevance and consistency of information about the City's leasing activities.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (cont'd):

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

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A public hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General, Major Street, and Local Street Funds and total fund level for all other Special Revenue Funds and the DDA.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Funds, and the DDA.
- 6) Budget appropriations lapse at year-end.
- 7) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level. The Michigan Department of Treasury requires the reporting of any significant overages at the legal level of budgetary control (any overages at the legal level of budgetary control greater than 10% of total expenditures and the overage itself is larger than 10%). For the fiscal year ended June 30, 2020, the City did not have any overages that exceeded this threshold.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2020, the carrying amount of the deposits and investments is as follows:

	Primary Government	Component Unit	Reporting Entity
Cash on Hand - Petty Cash	\$ 250	\$ 50	\$ 300
Deposits with Financial Institutions -			
Checking	2,244,850	79,074	2,323,924
Savings/Money Markets	886,853	-	886,853
Total Deposits	3,131,703	79,074	3,210,777
Investments -			
Investment Pools	247,899	-	247,899
	\$ 3,379,852	\$ 79,124	\$ 3,458,976

The deposits and investments of the City are reported on the statement of net position as cash and cash equivalents.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Safety of principal is the primary objective of the City's investment policy. Deposits and investments of the City should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain the objective, diversification is required in order that potential losses in individual securities do not exceed the income generated from the remainder of the portfolio.

Deposits -

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in the State of Michigan (State) under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Custodial Credit Risk - is the risk that in the event of a bank failure, the City's deposits or investments may not be returned.

As of June 30, 2020, the bank balance of the City's deposits was \$3,266,912, of which \$1,000,992 was insured with the remaining balance of \$2,265,920 exposed to credit risk because it is uninsured and uncollateralized.

Investments -

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State or any of the political subdivisions that at the time of purchase; are rated as investment grades by not less than one standard rating service, mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.188; investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

At June 30, 2020, the City was invested in investment pools in the amount of \$247,899. The investments are considered money market funds as defined by GASB, and as such are recorded at amortized cost, which approximates fair value. The funds require no notification of redemption to avoid penalties. The funds are not subject to the fair value disclosures under GASB Statement No. 72.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Interest Rate Risk - is the risk that the market value of securities in the City's portfolio will fall due to changes in market interest increases. The City policy attempts to minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money market mutual funds or similar public investment pools. The City's investment policy does not address interest rate risk.

Credit Risk - is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investments the City can purchase.

The City has \$240,217 invested with the Michigan Cooperative Liquid Assets Security System (Michigan CLASS). Michigan CLASS is a participant-controlled trust created in accordance with Section 5 of Act 7 of the Urban Cooperation Act of 1967 and the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150. Michigan CLASS funds are authorized to invest in U.S. Treasuries, U.S. Agencies, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit, and mutual funds. Michigan CLASS is not subject to regulatory oversight and is not registered with the SEC, however, does issue a separate audited financial statement, which can be obtained at www.michiganclass.org. Michigan CLASS operates like a money market mutual fund, with each share valued at \$1.00. Fair value of the City's position in the government investment pool is the same as the value of the Michigan CLASS pool shares. The average days to maturity are 65 days. Michigan CLASS is rated AAAM by Standard and Pools.

The City has \$7,682 invested with U.S. Bank in the First American Government Obligations Fund Class D. The fund seeks maximum current income to the extent consistent with the preservation of capital and maintenance of liquidity. The fund invests exclusively in short-term U.S. government securities, including repurchase agreements secured by U.S. government securities. The fund operates like a money market mutual fund, with each share valued at \$1.00. Fair value of the City's position in the fund is the same as the value of the fund pool shares. The average days to maturity are 19 days. The First American Government Obligations Fund Class D is rated AAAM by Standard and Pools.

Concentration of Credit Risk - is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy requires that it diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business type activities as of June 30, 2020 are as follows:

	Governmental Activities	Business-type Activities
Interest and accounts	\$ 59,337	\$ 409,672
Intergovernmental	184,128	-
	\$ 243,465	\$ 409,672

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS:

Primary Government -

Capital asset activity of the primary government for the year ended June 30, 2020 was as follows:

	July 1, 2019		Deletions/	June 30, 2020
	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,694,914	\$ -	\$ -	\$ 1,694,914
Construction in progress - Infrastructure	<u>184,580</u>	<u>2,239,399</u>	-	<u>2,423,979</u>
Total capital assets, not being depreciated	<u>1,879,494</u>	<u>2,239,399</u>	-	<u>4,118,893</u>
Capital assets, being depreciated:				
Buildings and improvements	4,531,910	14,876	-	4,546,786
Infrastructure	6,535,226	-	-	6,535,226
Machinery and equipment	1,723,208	189,681	222,251	1,690,638
Vehicles	<u>1,502,071</u>	<u>40,304</u>	<u>169,822</u>	<u>1,372,553</u>
Total capital assets, being depreciated	<u>14,292,415</u>	<u>244,861</u>	<u>392,073</u>	<u>14,145,203</u>
Less accumulated depreciation:				
Buildings and improvements	2,378,248	136,153	-	2,514,401
Infrastructure	1,874,174	348,881	-	2,223,055
Machinery and equipment	1,186,220	100,527	92,540	1,194,207
Vehicles	<u>1,101,965</u>	<u>52,856</u>	<u>165,725</u>	<u>989,096</u>
Total accumulated depreciation	<u>6,540,607</u>	<u>638,417</u>	<u>258,265</u>	<u>6,920,759</u>
Total capital assets, being depreciated, net	<u>7,751,808</u>	<u>(393,556)</u>	<u>133,808</u>	<u>7,224,444</u>
Governmental activities, net	<u>\$ 9,631,302</u>	<u>\$ 1,845,843</u>	<u>\$ 133,808</u>	<u>\$ 11,343,337</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS - (cont'd):

	July 1, 2019		Deletions/	June 30, 2020
	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 147,400	\$ -	\$ -	\$ 147,400
Construction in progress -				
Water	-	44,561	-	44,561
Sanitary sewer	<u>35,683</u>	<u>452,710</u>	-	<u>488,393</u>
Total capital assets, not being depreciated	<u>183,083</u>	<u>497,271</u>	-	<u>680,354</u>
Capital assets, being depreciated:				
Buildings and improvements	5,110,632	40,788	-	5,151,420
Machinery and equipment	173,187	4,238	-	177,425
Vehicles	27,793	-	-	27,793
Wastewater system	14,068,958	10,549	-	14,079,507
Water System	<u>8,518,473</u>	<u>6,165</u>	-	<u>8,524,638</u>
Total capital assets, being depreciated	<u>27,899,043</u>	<u>61,740</u>	-	<u>27,960,783</u>
Less - Accumulated depreciation:				
Building and improvements	3,134,038	130,328	-	3,264,366
Machinery and equipment	147,640	26,958	-	174,598
Vehicles	27,793	-	-	27,793
Waste Water system	3,608,340	389,698	-	3,998,038
Water system	<u>3,194,987</u>	<u>203,921</u>	-	<u>3,398,908</u>
Total accumulated depreciation	<u>10,112,798</u>	<u>750,905</u>	-	<u>10,863,703</u>
Total capital assets, being depreciated, net	<u>17,786,245</u>	<u>(689,165)</u>	-	<u>17,097,080</u>
Business-type activities, net	<u>\$ 17,969,328</u>	<u>\$(91,894)</u>	<u>\$ -</u>	<u>\$ 17,777,434</u>
Component Unit (DDA):				
Capital assets, not being depreciated:				
Land	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,000</u>
Capital assets, being depreciated:				
Building and improvements	298,507	-	-	298,507
Infrastructure	198,000	-	-	198,000
Machinery and equipment	<u>22,530</u>	-	-	<u>22,530</u>
Total capital assets, being depreciated	519,037	-	-	519,037
Less - Accumulated depreciation	<u>265,886</u>	<u>17,961</u>	-	<u>283,847</u>
Total capital assets, being depreciated, net	<u>253,151</u>	<u>(17,961)</u>	-	<u>235,190</u>
Component unit capital assets, net	<u>\$ 313,151</u>	<u>\$(17,961)</u>	<u>\$ -</u>	<u>\$ 295,190</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS - (cont'd):

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

Governmental Activities:	
General Government	\$ 38,317
Public Safety	12,950
Public Works	346,194
Health and Welfare	3,224
Recreation and Cultural	<u>89,945</u>
Depreciation Expense - Governmental Activities	490,630
Depreciation Expense - Internal Service Funds	<u>147,787</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 638,417</u>
Business-type Activities:	
Water Fund	\$ 239,063
Wastewater Fund	<u>511,842</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 750,905</u>
Component Unit Activities:	
Downtown Development Authority	<u>\$ 17,961</u>

Construction/Purchase Commitments -

The City has committed to the following contracts at June 30, 2020 (These commitments do not include any change orders made after June 30, 2020):

	Contract Amount	Payments Through 6/30/2020	Accounts Payable/ Retention	Remaining Balance 6/30/2020
2019 Street Improvements - Engineering	\$ 415,000	\$ 98,491	\$ 39,111	\$ 277,398
Genesee Street Storm Sewer Improvements - Construction	1,410,030	-	-	1,410,030
Engineering	176,000	144,120	2,472	29,408

NOTE 6 - PAYABLES:

Payables in the governmental and business-type activities as of June 30, 2020 are as follows:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 168,260	\$ 107,980
Accrued wages and fringe benefits	<u>20,578</u>	<u>7,758</u>
	<u>\$ 188,838</u>	<u>\$ 115,738</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE, AND TRANSFERS:

Due From/To Other Funds -

Receivable Fund	Payable Fund	Amount
General Fund	Refuse Service Fund	\$ <u>2,984</u> (4)

Transfers In/Out Other Funds -

Transfers In	Transfers Out	Amount
Equipment Revolving Fund	General Fund	\$ 33,036 (1)
Local Street Fund	Major Street Fund	10,000 (2)
	Street Projects Fund	1,643,170 (2)
Major Street Fund	Street Projects Fund	624,421 (2)
Water Fund	2012 Water Bond Debt Fund	6,602 (3)
Building Inspection Fund	General Fund	<u>14,000</u> (1)
Total Transfers		<u>\$ 2,331,229</u>

- (1) Funding to subsidize operations
- (2) Funding of current/future improvements
- (3) To close 2012 Water Bond Debt Fund
- (4) Short-term borrowing between funds to cover negative cash balance in the common cash

NOTE 8 - LONG-TERM LIABILITIES:

Primary Government -

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Governmental Funds -					
General Obligation Limited Tax Bonds:					
2018 Street Improvement Bonds	\$ 749,000	\$ -	\$ 43,000	\$ 706,000	\$ 42,000
2019 Street Improvement Bonds	2,400,000	-	255,000	2,145,000	55,000
Notes from Direct Borrowing:					
Installment Purchases -					
2004 Land	21,882	-	21,882	-	-
2015 Infrastructure	90,000	-	15,000	75,000	15,000
Capital Lease -					
2017 Energy Conservation	<u>320,810</u>	<u>-</u>	<u>17,519</u>	<u>303,291</u>	<u>18,618</u>
Total Governmental Funds	<u>3,581,692</u>	<u>-</u>	<u>352,401</u>	<u>3,229,291</u>	<u>130,618</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

	Balance July 1, 2019	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2020	Due Within One Year
Internal Service Funds -					
Notes from Direct Borrowing:					
Installment Purchases -					
2012 Fire Truck	\$ 94,260	\$ -	\$ 30,632	\$ 63,628	\$ 31,413
2015 Vactor	215,580	-	39,554	176,026	176,026
2016 Loader	126,399	-	126,399	-	-
2019 Loader	-	176,901	9,225	167,676	15,296
Other Liabilities:					
Compensated Absences	49,375	4,489	-	53,864	-
Total Internal Service Funds	<u>485,614</u>	<u>181,390</u>	<u>205,810</u>	<u>461,194</u>	<u>222,735</u>
Total Governmental Activities	<u>4,067,306</u>	<u>181,390</u>	<u>558,211</u>	<u>3,690,485</u>	<u>353,353</u>
Enterprise Funds -					
Wastewater Fund -					
General Obligation Limited Tax Bonds:					
Revenue Bonds -					
SDS, Series 2015 A	3,972,000	-	77,000	3,895,000	79,000
SDS, Series 2015 B	1,432,000	-	27,000	1,405,000	27,000
SDS, Series 2015 C	1,385,000	-	26,000	1,359,000	27,000
Notes from Direct Borrowing:					
Installment Purchases -					
2015 Infrastructure	90,000	-	15,000	75,000	15,000
2017 Sewer Pumps	97,962	-	32,654	65,308	32,654
Capital Leases -					
2016 Sewer Camera	41,839	-	20,384	21,455	21,455
2017 Energy Conservation	537,641	-	29,360	508,281	31,202
Other Liabilities:					
Compensated Absences	3,105	-	839	2,266	-
Judgement Payable	8,000	-	8,000	-	-
Water Fund -					
General Obligation Limited Tax Bonds:					
Revenue Bonds -					
WSS, Series 2015 A	1,387,000	-	23,000	1,364,000	24,000
WSS, Series 2015 B	760,000	-	13,000	747,000	13,000
WSS, Series 2017	371,000	-	9,000	362,000	9,000
Notes from Direct Borrowing:					
Capital Lease -					
2017 Energy Conservation	688,199	-	37,581	650,618	39,940
Other Liabilities:					
Compensated Absences	3,106	-	840	2,266	-
Total Business-type Activities	<u>10,776,852</u>	<u>-</u>	<u>319,658</u>	<u>10,457,194</u>	<u>319,251</u>
Total Primary Government	<u>\$14,844,158</u>	<u>\$ 181,390</u>	<u>\$ 877,869</u>	<u>\$14,147,679</u>	<u>\$ 672,604</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Governmental Fund Bonds -

On June 7, 2018, the City issued 2018 Street Improvement Bonds (Unlimited Tax General Obligation) in the amount of \$1,024,000 to fund street improvements. Annual principal payments of \$42,000 to \$275,000 are due November 1 of each year through 2032 with interest of 3.58%, payable semi-annually.	\$ 706,000
On May 16, 2019, the City issued 2019 Street Improvement Bonds (Unlimited Tax General Obligation) in the amount of \$2,400,000 to fund street improvements. Annual principal payments of \$55,000 to \$255,000 are due November 1 of each year through 2039 with interest ranging from 2.15-3.10%, payable semi-annually.	<u>2,145,000</u>
	<u>\$ 2,851,000</u>

Water and Wastewater Revenue Bonds -

Water Supply System (WSS) Revenue Bonds, Series 2015 A, for \$1,473,000 through the United States Department of Agriculture (USDA), Rural Development Water and Wastewater Loan program, to fund water improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.75%.	\$ 1,364,000
WSS Revenue Bonds, Series 2015 B, for \$807,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund water improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.75%.	747,000
WSS Revenue Bonds, Series 2017, for \$500,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund water improvements. Principal payments on the loan are due May 1 of each year through 2057 with interest payable semi-annually at 1.875%.	362,000
Sewage Disposal System (SDS) Revenue Bonds, Series 2015 A, for \$4,393,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund wastewater improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.125%.	3,895,000
SDS Revenue Bonds, Series 2015 B, for \$1,534,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund wastewater improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.125%.	1,405,000

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

SDS Revenue Bonds, Series 2015 C, for \$1,483,000 through the United States Department of Agriculture, Rural Development Water and Wastewater Loan program, to fund wastewater improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.125%.

\$ 1,359,000

\$ 9,132,000

Installment Purchases -

On November 20, 2012, the City entered into an installment purchase agreement to finance the purchase of a new fire truck in the amount of \$295,740. Payments of \$33,036 are due annually over nine years, including interest of 2.55%.

\$ 63,628

On October 30, 2015, the City entered into an installment purchase agreement to finance construction charges for the West Parking Lot and Pathway Improvements Project in the amount of \$450,000, of which \$150,000 will be paid by each the General Fund, the Sewer Fund, and the DDA. The General Fund and Sewer Fund portions are due in ten annual installments of \$15,000 with interest payable semi-annually at 2.68%.

150,000

On July 15, 2015, the City entered into an installment purchase agreement for the purchase of a new Vector in the amount of \$328,548. The final payment of \$176,026 with interest of 2.50% was due July 15, 2020. The note is secured by the equipment.

176,026

In July 2017, the City entered into an installment purchase agreement for the purchase of six sewer pumps. Payments of \$32,564 are due annually over 4 years with no interest. The note is secured by the equipment.

65,308

On December 1, 2019, the City entered into an installment purchase agreement for the purchase of a new loader in the amount of \$176,901. Monthly payments of \$1,797 are due over five years, including interest of 3.90%, with a final payment of \$95,700 due in December 2024. The note is secured by the equipment.

167,676

\$ 622,638

Capital Leases -

In July 2016, the City entered into a capital lease agreement to finance a sewer camera in the amount of \$102,188. Payments of \$22,581 are due annually over four years including interest of 5.251%. At June 30, 2020, the gross asset value is \$102,188 with accumulated depreciation of \$102,188, leaving a net book value of \$0. Amortization expense of \$25,547 is included as part of the depreciation expense. The title to the equipment remains with the lessor until the lessee exercises the bargain purchase option.

\$ 21,455

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

On December 28, 2017, the City entered into a lease agreement to finance various energy conservation equipment in the amount of \$1,626,000, which will be paid as follows: \$337,269 from the General Fund, \$565,224 from the Wastewater Fund, and \$723,507 from the Water Fund. The lease is subject to annual appropriations of the City Council. Should the Council not appropriate annual lease payments the lease would terminate with the assets returned to the lessor. However, because it is the intent of the City Council to complete the lease and have the assets revert to the City at the end of the lease, the lease has been recorded as a capital lease. Principal payments are due annually on May 1 through 2032 with interest payable semi-annually at 3.930%. The agreement, via the Qualified Energy Conservation Bond program, qualifies for an interest subsidy to be received from the Internal Revenue Service (IRS), which is based on 70% of the maximum subsidy rate determined daily by the IRS. At June 30, 2020, the gross asset value is \$1,622,340 with accumulated depreciation of \$81,117, leaving a net book value of \$1,541,223. Amortization expense of \$64,894 is included as part of the depreciation expense.

\$ 1,462,190

\$ 1,483,645

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2020 (excluding compensated absences) are as follows:

Year Ending June 30,	General Obligation Bonds		Water & Wastewater Revenue Bonds		Installment Purchases	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 97,000	\$ 83,596	\$ 179,000	\$ 206,342	\$ 285,389	\$ 16,306
2022	100,000	80,814	181,000	202,333	110,772	9,693
2023	105,000	77,895	187,000	198,278	46,534	7,437
2024	109,000	74,848	191,000	194,081	47,190	5,977
2025	119,000	71,579	195,000	189,800	132,753	2,735
2026-2030	659,000	302,019	1,039,000	881,561	-	-
2031-2035	832,000	189,775	1,164,000	759,327	-	-
2036-2040	830,000	52,609	1,303,000	622,206	-	-
2041-2045	-	-	1,455,000	468,512	-	-
2046-2050	-	-	1,626,000	296,677	-	-
2051-2055	-	-	<u>1,612,000</u>	<u>106,846</u>	-	-
	<u>\$ 2,851,000</u>	<u>\$ 933,135</u>	<u>\$ 9,132,000</u>	<u>\$ 4,125,963</u>	<u>\$ 622,638</u>	<u>\$ 42,148</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

Year Ending June 30,	Capital Leases	
	Principal	Interest
2021	\$ 111,215	\$ 58,591
2022	95,110	53,937
2023	100,660	50,199
2024	106,420	46,243
2025	112,260	42,060
2026-2030	652,320	139,409
2031-2033	305,660	18,150
	<u>\$ 1,483,645</u>	<u>\$ 408,587</u>

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, and Employee Benefits Fund in the amounts of \$2,266, \$2,266, and \$53,864, respectively, at June 30, 2020.

COMPONENT UNIT -

The following is a summary of changes in long-term liabilities (including current portion) of the DDA for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Downtown Development Authority -					
Tax Development Bonds	\$ 510,000	\$ -	\$ 40,000	\$ 470,000	\$ 45,000
2015 Installment Purchase Agreement	90,000	-	15,000	75,000	15,000
Total Downtown Development Authority	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 545,000</u>	<u>\$ 60,000</u>

\$700,000 Limited Tax General Obligation Tax Development Bonds dated June 25, 2008, due in annual installments of \$20,000 to \$75,000 through November 1, 2027 with interest of 4.50% payable semi-annually. \$ 470,000

On October 30, 2015, the City entered into an installment purchase agreement to finance construction charges for the DIG Project in the amount of \$450,000, of which \$150,000 will be paid by each the General Fund, Sewer Fund, and the DDA. The DDA portion is due in ten annual installments of \$15,000 with interest payable semi-annually at 2.68%. 75,000

\$ 545,000

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2020 are as follows:

Year Ending June 30,	Development Bonds		Installment Purchases	
	Principal	Interest	Principal	Interest
2021	\$ 45,000	\$ 20,138	\$ 15,000	\$ 2,010
2022	50,000	18,000	15,000	1,608
2023	50,000	15,750	15,000	1,206
2024	55,000	13,388	15,000	804
2025	60,000	10,800	15,000	402
2026-2028	<u>210,000</u>	<u>14,625</u>	-	-
	<u>\$ 470,000</u>	<u>\$ 92,701</u>	<u>\$ 75,000</u>	<u>\$ 6,030</u>

NOTE 9 - PENSION PLANS:

Plan Descriptions -

The City participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple-employer state-wide public employee defined benefit pension plan that covers all full-time employees (full-time employees hired on or after January 1, 2009 are covered by the MERS Hybrid Plan). MERS was created under Public Act of 1945 and now operates under Public Act 220 of 1996. MERS was established to provide retirement, survivor, and disability benefits on a voluntary basis to the State's local government employees. Act No. 427 of the Public Acts of 1974, as amended, establishes and amends the benefits provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information at www.mersofmich.com or by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense have been determined on the same basis as they are reported by the pension plan (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 when due pursuant to legal, statutory, and contractual requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with benefit terms.

The membership at December 31, 2019 was comprised of 20 active participants, 23 retirees and beneficiaries, and 5 other vested inactive participants.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - PENSION PLANS - (cont'd):

Benefits Provided -

Retirement benefits, except for Hybrid Plan members, are calculated as 2.0% of the employee's final five-year average salary times the employee's years of service for general employees and 2.5% for Police and Fire with a maximum of 80.0%. Employees are vested after 10 years of service. Normal retirement age is 60. Early retirement with a reduced benefit is at 50 with 25 years of service or at 55 with 15 years of service or for an unreduced benefit at 55 with 30 years of service for employees in the public works division only. Employees are eligible for non-duty 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. An employee who leaves service may withdraw his or her contributions, plus accumulated interest. Benefit terms provide for annual cost-of-living adjustments to each employee's retirement benefit subsequent to the employee's retirement date of 2.0%.

Hybrid Plan member benefits are calculated as 1.5% of the employees' three-year final average compensation. Employees are vested after 6 years of service.

Benefit terms, within the parameters established by MERS, are established and amended by the authority of the City Council.

Contributions -

The Plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate. During the year ended June 30, 2020, contributions totaling \$246,720 were made in accordance with contribution requirements determined by an actuarial valuation for the Plan as of December 31, 2018. The contribution requirements of Plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - PENSION PLANS - (cont'd):

Net Pension Liability -

The net pension liability was measured as of December 31, 2019, as determined by an actuarial valuation performed as of that date, and the changes in the net pension liability are composed of the following:

	<u>Total Pension Liability</u>	<u>Plan's Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2018	\$ 6,398,921	\$ 3,921,917	\$ 2,476,704
Service cost	72,186	-	72,186
Interest on total pension liability	514,777	-	514,777
Differences between expected and actual experience	56,640	-	56,640
Change in assumptions	232,120	-	232,120
Net investment income	-	525,552	(525,552)
Contributions from employer	-	238,386	(238,386)
Benefit payments	(408,921)	(408,921)	-
Administrative costs	-	(9,053)	9,053
Other changes	(16,357)	-	(16,357)
Balance at December 31, 2019	<u>\$ 6,849,066</u>	<u>\$ 4,267,881</u>	<u>\$ 2,581,185</u>

Plan fiduciary net position as a percentage of the total pension liability 62.3%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions -

For the year ended June 30, 2020, the City recognized pension expense of \$398,398 in the government-wide and proprietary fund financial statements of the primary government. At June 30, 2020, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on Plan investments	\$ 7,433	\$ -
Differences between expected and actual experience	67,753	44,258
Changes in assumptions	174,090	-
	249,276	44,258
Contributions made subsequent to the measurement date	123,360	-
	<u>\$ 372,636</u>	<u>\$ 44,258</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - PENSION PLANS - (cont'd):

The amounts of deferred outflows of resources related to pension, excluding contributions to the Plan subsequent to the measurement date which will be recognized by the Plan in the next measurement period, will be recognized in pension expense as follows:

2021	\$	53,629
2022		69,585
2023		125,600
2024	(<u>43,796)</u>
	\$	<u>205,018</u>

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2019. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from January 1, 2009 through December 31, 2013.

Salary Increases - 3.00%

Inflation - 2.50%

Investment Rate of Return - 7.35%

Mortality Rates - 50% Male and 50% Female blend of the following tables: 1) the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%; 2) the RP-2014 Employee Mortality Tables; and 3) the RP-2014 Juvenile Mortality Tables. For disabled retirees, the RP-2014 Disabled Retiree Mortality Tables using a 50% Male and 50% Female blend were used.

Discount Rate - The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows - Based on the assumptions above, 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.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - PENSION PLANS - (cont'd):

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 weighing 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 December 31, 2019 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	60.00 %	5.19 %
Global Fixed Income	20.00	0.75
Private Investments	20.00	1.81

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 7.60 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net pension liability	\$ 3,343,152	\$ 2,581,185	\$ 1,934,728

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 9, the City provides postemployment benefits through a single-employer defined benefit healthcare plan (the "OPEB Plan") to eligible employees and their spouse until they both reach age 65 who retire from the City with twenty-five (25) years of service, or with less than twenty-five (25) years of service if age 60 has been reached for DPW and administration or at age 50 and at least ten (10) years of service for police employees. Administration and DPW employees receive 4.00% towards the healthcare benefits for every year of service. Police department employees receive 50.00% of premiums after 10 years of service and 4.00% for every year thereafter. When both the employee and their spouse reach age 65, they are no longer covered under the City policy, but are provided up to a \$300 stipend per month, allowing them to choose a plan that best fits their specific healthcare needs on the open market. The OPEB Plan is closed to employees hired on or after July 1, 2013 under the police contract and on or after January 1, 2009 for employees hired under the DPW and administration contracts. Management of the OPEB Plan is provided by City Council. The OPEB Plan does not issue a publicly available financial report, as it is audited within the financial report of the City.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Summary of Significant Accounting Policies -

For purposes of measuring OPEB liability, deferred outflows of resources, deferred inflows of resources related to OPEB, OPEB expense, the net position of the OPEB Plan, and additions to/ deductions from net position have been determined as the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Benefits Provided -

Benefits provided by the OPEB Plan consist of healthcare and prescription drug coverage. Benefit provisions are established through negotiations between the City's management and City Council and the employees' unions.

OPEB Plan Membership -

At June 30, 2020, OPEB Plan membership consisted of 8 active members and 12 inactive members or beneficiaries receiving benefits.

Contributions -

During the year ended June 30, 2020, actuarially determined contributions were \$200,473 and actual contributions of \$114,498 were made. No member contributions are currently required.

The contributions of OPEB Plan members and the City are established and may be amended by the City Council. Most administrative costs consist of processing retiree health insurance payments of the OPEB Plan and are paid with City resources.

Investment Policy -

The OPEB Plan's policy in regard to the allocation of invested assets is established and may be amended by City Council by a majority vote of its members.

The long-term expected rate of return on the OPEB Plan's investments was determined using a building block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The adopted asset allocation policy and the best estimates of arithmetic real rates of return for each asset class as of June 30, 2020 are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Capital Preservation Portfolio	9.20 %	1.00 %
Balanced Inc. Portfolio	59.40	1.80
Short-term Income	31.40	(1.50)

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Methods and Assumptions -

The total OPEB liability was determined by an actuarial valuation at June 30, 2019 rolled forward to 2020. The valuation used the following assumptions included in the measurement:

Retirement Age of Active Employees - Based on the historical average retirement age for the covered group, active OPEB Plan members were assumed to retire at age 50 for police employees and age 60 for DPW and administration.

Utilization - 100.00% of covered employees at the valuation date will elect the same coverage at retirement; actual coverage used for non-active members.

Marital Status - 100.00% will have a covered spouse at retirement with no age difference between females and males; actual spouse data used for retirees.

Mortality - 2010 Public General and Public Safety, Employee, Healthy Retiree, and Disabled Retiree; Headcount-weighted with 2019 Mortality Improvement Scale.

Healthcare Cost Trend Rate - Medical premiums: Pre-Medicare - 8.25% graded down to 4.50% by 0.25% per year, Medicare - 6.50% graded down to 4.50% by 0.25% per year.

Health Insurance Premiums - 2019 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Payroll Growth Rate - The expected long-term payroll growth rate assumption of 3.50%.

Discount Rate - A discount rate of 2.99% was used. The discount rate was based on the 20-year Aa municipal bond rate. The assets are not projected to be sufficient to make projected future benefit payments of current OPEB Plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets, the "depletion date" ("crossover point"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability. The discount rate was 3.00% as of June 30, 2019.

Assumption changes since the prior valuation are as follows:

- The mortality table changed from MP-2018 to MP-2019.
- Medical trend rates changed from 7.00% graded down to 4.50% by .25% per year.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Net OPEB Liability of the City -

The net OPEB liability of the City has been measured as of June 30, 2020, as determined by an actuarial valuation performed as of June 30, 2019 rolled forward to June 30, 2020. The changes in net OPEB liability are composed of the following:

	<u>Total OPEB Liability</u>	<u>OPEB Plan's Net Position</u>	<u>Net OPEB Liability</u>
Beginning Balance	\$ 2,637,901	\$ 131,976	\$ 2,505,925
Service cost	50,975	-	50,975
Interest on net OPEB liability	77,915	-	77,915
Difference between expected and actual experience	(2,717)	-	(2,717)
Changes in assumptions	(127,047)	-	(127,047)
Net investment income	-	6,190	(6,190)
Contributions from employer	-	114,498	(114,498)
Benefit payments	(91,714)	(91,714)	-
Administrative expenses	<u>-</u>	<u>(256)</u>	<u>256</u>
Ending Balance	<u>\$ 2,545,313</u>	<u>\$ 160,694</u>	<u>\$ 2,384,619</u>

OPEB Plan fiduciary net position as a percentage of total OPEB liability 6.31%

OPEB Expense and Deferred Inflows of Resources Related to OPEB -

For the year ended June 30, 2020, the City recognized OPEB expenses of \$78,530 for the OPEB Plan in the government-wide and proprietary fund financial statements of the primary government. At June 30, 2020, the City reported deferred outflows/deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB Plan investments	\$ -	\$ 4,110
Changes in assumptions	76,863	88,076
Differences between expected and actual experience	<u>-</u>	<u>86,158</u>
	<u>\$ 76,863</u>	<u>\$ 178,344</u>

The amounts of deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	\$(45,954)
2022	(44,103)
2023	(11,120)
2024	<u>(304)</u>
	<u>\$(101,481)</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 2.99% as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (1.99%) or one-percentage-point higher (3.99%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 2,752,309	\$ 2,384,619	\$ 2,084,576

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates -

The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 8.25/6.50%, graded down to 4.50% over six years, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower (7.25/5.50%) or one-percentage-point higher (9.25/7.50%) than the current rate.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 2,186,575	\$ 2,384,619	\$ 2,626,534

NOTE 11 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to property loss, torts, errors or omissions, injuries to employees, etc. The City has purchased insurance coverage, as noted below, for these types of losses. However, the City would be responsible in the event the limit of coverages is exceeded. The amount of settlement claims for the last three years has not exceeded insurance coverage.

General Liability -

The City participates in the Michigan Municipal League Liability and Property Pool liability insurance program. In general, the City carries \$10,000,000 of liability coverage and approximately \$21,994,000 of total property insurance Blanket Limit with a \$1,000 per-claim deductible.

Workers' Compensation -

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

Health Insurance -

The City has a Health Savings Account (HSA) program to fund health insurance deductibles. The City has purchased insurance coverage for any amounts that may be due in excess of the deductible amount. The City funded the entire deductible amount, which resulted in reduced premiums.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 12 - CONTINGENCIES:

The City receives financial assistance from Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2020.

NOTE 13 - NET POSITION/FUND BALANCE:

Primary Government:

Net Investment in Capital Assets -

Governmental Activities:

Capital Assets	\$ 11,343,337
Less - Related Debt:	
2019 Street Improvement Bonds	(2,145,000)
2018 Street Improvement Bonds	(706,000)
Installment Purchases	(482,330)
2017 Energy Conservation Lease	<u>(303,291)</u>
	<u>\$ 7,706,716</u>

Business-type Activities:

Capital Assets	\$ 17,777,434
Less - Related Debt:	
Revenue Bonds	(9,132,000)
Installment Purchases	(140,308)
Capital Leases	<u>(1,180,354)</u>
	<u>\$ 7,324,772</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 - NET POSITION/FUND BALANCE - (cont'd):

Primary Government - continued:

Restricted Fund Balance/Net Position -

Governmental Activities/Fund:

General Fund -

Park Donations - General	\$ 19,527
Park Development - Diamond District Park	4,716
Other	4,654

Major Street Fund -

Street Maintenance and Improvements	714,659
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Local Street Fund -

Street Maintenance and Improvements	289,685
-------------------------------------	---------

Street Millage Debt Fund -

Debt Service	5,888
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Building Inspection Fund -

Inspections	9,741
-------------	-------

Ambulance Fund -

Ambulatory Service	53,545
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Street Projects Fund -

Street Maintenance and Improvements	<u>173,751</u>
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Total Restricted for Governmental Activities	1,276,166
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Nonspendable - Inventory	<u>(2,170)</u>
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Total Restricted for Governmental Funds	<u>\$ 1,273,996</u>
---	---------------------

Business-type Activities:

Water Fund -

Debt retirement	\$ 53,226
Well head protection	15,000
Repairs, replacements, and improvements	<u>15,600</u>
	<u>83,826</u>

Sewer Fund -

Debt retirement	170,094
Repairs, replacements, and improvements	<u>15,000</u>
	<u>185,094</u>

Total Restricted for Business-type Activities	<u>\$ 268,920</u>
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CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 13 - NET POSITION/FUND BALANCE - (cont'd):

Primary Government - continued:

Nonspendable -

General Fund:

Prepays and deposits	\$ 3,853
Major Street Fund - Inventory	1,085
Local Street Fund - Inventory	<u>1,085</u>

Total Nonspendable	<u>\$ 6,023</u>
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Committed Fund Balance -

Committed:

General Fund minimum fund balance	\$ 365,477
Sidewalk and Curbs Fund - Sidewalk and curb improvement	<u>33,071</u>

Total Committed Fund Balance	<u>\$ 398,548</u>
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Component Unit:

Net Investment in Capital Assets -

Capital Assets	\$ 295,190
Installment Purchase Agreement	<u>(75,000)</u>
	<u>\$ 220,190</u>

Restricted Net Position/Fund Balance -

Downtown Development Authority - Wednesday Night Live	<u>\$ 10,241</u>
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Assigned Fund Balance -

2020/2021 Budget	<u>\$ 14,150</u>
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NOTE 14 - CAPITAL LEASE:

In June 2008, the City signed a 20-year lease agreement for the City to lease a parking area owned by the DDA to a local financial institution for a nominal annual amount. At the completion of the lease, title to the property will pass to the financial institution; therefore, the asset has not been recorded in the City's financial statements.

The financial institution also holds the DDA bonds of \$470,000 used to purchase the property.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 - OPTION TO PURCHASE PROPERTY:

In February 2016, the City signed a ten-year option for the purchase of approximately one hundred seventy (170) acres of land. The option required the City to make a one-time payment of \$5,000 to hold the option on the property. The purchase price per acre ranges from \$12,342 to \$16,103 (depending on year of purchase). The total purchase price ranges from \$2,098,140 to \$2,737,510 (depending on year of purchase).

NOTE 16 - SUBSEQUENT EVENTS/CORONAVIRUS:

In September 2020, the City entered into an installment purchase agreement for the purchase of a new freightliner salt truck in the amount of \$176,473. Quarterly payments of \$9,186 are due over five years, including interest of 4.14%.

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. There have been mandates from federal, state, and local authorities requiring forced closures of non-essential businesses and stay-at-home orders for most states, including Michigan, which could negatively impact the City's activities and funding. Given the evolving nature of this global emergency, its financial impact is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,082,296	\$ 1,095,050	\$ 1,095,535	\$ 485
Licenses and permits	48,355	47,000	47,459	459
Intergovernmental	469,829	461,900	470,138	8,238
Charges for services	56,445	55,675	56,383	708
Fines and forfeits	7,354	6,000	6,211	211
Interest and rents	40,470	36,800	36,307	(493)
Other	78,216	40,460	44,150	3,690
Total Revenues	1,782,965	1,742,885	1,756,183	13,298
Expenditures:				
General Government -				
Legislative	14,856	14,875	14,381	494
City Manager	124,642	129,225	131,288	(2,063)
Elections	9,663	7,850	7,905	(55)
Assessor	32,464	28,075	26,886	1,189
City Clerk	191,295	176,700	179,479	(2,779)
Treasurer	126,639	136,175	134,662	1,513
General Administration	284,668	452,514	289,565	162,949
	784,227	945,414	784,166	161,248
Less: Reimbursement from other funds	(525,000)	(525,000)	(525,000)	-
Total General Government	259,227	420,414	259,166	161,248
Public Safety -				
Police Department	578,889	586,845	583,909	2,936
Fire Department	119,507	96,350	98,853	(2,503)
Total Public Safety	698,396	683,195	682,762	433
Public Works -				
Director of Public Works	123,755	129,455	128,922	533
Department of Public Works	350,669	304,500	274,991	29,509
Total Public Works	474,424	433,955	403,913	30,042
Recreation and Cultural -				
Parks and Recreation	150,355	62,050	58,659	3,391
Community and Economic Development -				
Planning	8,288	21,300	27,936	(6,636)
Debt Service -				
Principal	83,696	51,775	51,729	46
Interest	18,344	15,500	15,428	72
Total Debt Service	102,040	67,275	67,157	118
Total Expenditures	1,692,730	1,688,189	1,499,593	188,596
Revenues over expenditures	90,235	54,696	256,590	201,894

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses):				
Sale of property	\$ 235,350	\$ -	\$ 8,600	\$ 8,600
Transfers out	(2,400)	(54,696)	(47,036)	7,660
Total Other Financing Sources (Uses)	<u>232,950</u>	<u>(54,696)</u>	<u>(38,436)</u>	<u>16,260</u>
Net change in Fund Balance	323,185	-	218,154	218,154
Fund Balance at beginning of year	<u>718,402</u>	<u>718,402</u>	<u>718,402</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,041,587</u>	<u>\$ 718,402</u>	<u>\$ 936,556</u>	<u>\$ 218,154</u>

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 274,013	\$ 275,450	\$ 272,293	\$(3,157)
Interest	1,220	1,000	992	(8)
Total Revenues	<u>275,233</u>	<u>276,450</u>	<u>273,285</u>	<u>(3,165)</u>
Expenditures:				
Public Works -				
Administration	20,000	20,100	20,000	100
Construction	866,092	595,000	614,183	(19,183)
Maintenance:				
Preservation	41,584	229,175	52,097	177,078
Winter maintenance	18,899	16,175	15,264	911
Total Expenditures	<u>946,575</u>	<u>860,450</u>	<u>701,544</u>	<u>158,906</u>
Revenues under expenditures	<u>(671,342)</u>	<u>(584,000)</u>	<u>(428,259)</u>	<u>155,741</u>
Other Financing Sources (Uses):				
Transfers in	424,640	594,000	624,421	30,421
Transfers out	<u>(101,180)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>323,460</u>	<u>584,000</u>	<u>614,421</u>	<u>30,421</u>
Net change in Fund Balance	(347,882)	-	186,162	186,162
Fund Balance at beginning of year	<u>528,497</u>	<u>528,497</u>	<u>528,497</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 180,615</u>	<u>\$ 528,497</u>	<u>\$ 714,659</u>	<u>\$ 186,162</u>

Note: The legally adopted budget combines transfers and administration costs as one line item.

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 139,168	\$ 118,260	\$ 117,445	\$(815)
Expenditures:				
Public Works -				
Administration	9,000	9,050	9,000	50
Maintenance:				
Preservation	687,143	1,667,460	1,685,702	(18,242)
Winter maintenance	18,317	18,100	17,178	922
Total Expenditures	<u>714,460</u>	<u>1,694,610</u>	<u>1,711,880</u>	<u>(17,270)</u>
Revenues under expenditures	(575,292)	(1,576,350)	(1,594,435)	(18,085)
Other Financing Sources:				
Transfers in	<u>642,870</u>	<u>1,576,350</u>	<u>1,653,170</u>	<u>76,820</u>
Net change in Fund Balance	67,578	-	58,735	58,735
Fund Balance at beginning of year	<u>230,950</u>	<u>230,950</u>	<u>230,950</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 298,528</u>	<u>\$ 230,950</u>	<u>\$ 289,685</u>	<u>\$ 58,735</u>

CITY OF DURAND, MICHIGAN

EMPLOYEES' RETIREMENT SYSTEM

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
PLAN YEARS**

	Year Ended December 31,			
	2019	2018	2017	2016
Total Pension Liability:				
Service cost	\$ 72,186	\$ 72,295	\$ 79,980	\$ 68,923
Interest	514,777	492,302	492,500	441,239
Benefit changes	-	-	-	4,314
Differences between expected and actual experience	56,640	(88,516)	37,210	51,945
Changes in assumptions	232,120	-	-	-
Benefit payments, including refunds	(408,921)	(393,724)	(394,053)	(308,949)
Other charges	(16,357)	131	(15,763)	45,365
	<u>450,445</u>	<u>82,488</u>	<u>199,874</u>	<u>302,837</u>
Change in total pension liability	450,445	82,488	199,874	302,837
Total pension liability, beginning of year	<u>6,398,621</u>	<u>6,316,133</u>	<u>6,116,259</u>	<u>5,813,422</u>
Total pension liability, end of year	<u>\$ 6,849,066</u>	<u>\$ 6,398,621</u>	<u>\$ 6,316,133</u>	<u>\$ 6,116,259</u>
Plan Fiduciary Net Position:				
Contributions - Employer	\$ 238,386	\$ 222,994	\$ 244,699	\$ 129,581
Contributions - Member	-	-	-	49,677
Net investment income	525,552	(162,555)	512,974	408,281
Benefit payments, including refunds	(408,921)	(393,724)	(394,053)	(308,949)
Administrative expenses	(9,053)	(8,161)	(8,133)	(8,073)
	<u>345,964</u>	<u>(341,446)</u>	<u>355,487</u>	<u>270,517</u>
Net change in plan fiduciary net position	345,964	(341,446)	355,487	270,517
Plan fiduciary net position, beginning of year	<u>3,921,917</u>	<u>4,263,363</u>	<u>3,907,876</u>	<u>3,637,359</u>
Plan fiduciary net position, end of year	<u>\$ 4,267,881</u>	<u>\$ 3,921,917</u>	<u>\$ 4,263,363</u>	<u>\$ 3,907,876</u>
City's Net Pension Liability - Ending	<u>\$ 2,581,185</u>	<u>\$ 2,476,704</u>	<u>\$ 2,052,770</u>	<u>\$ 2,208,383</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	62.31%	61.29%	67.50%	63.89%
Covered Employee Payroll	\$ 914,118	\$ 932,427	\$ 1,028,857	\$ 913,272
City's Net Pension Liability as a Percentage of Covered Employee Payroll	282.4%	265.6%	199.5%	241.8%

* GASB Statement No. 68 was implemented for fiscal year ended June 30, 2015. The schedule is being built prospectively.

<u>2015</u>	<u>2014</u>
\$ 62,727	\$ 57,941
410,095	406,693
-	-
90,182	-
281,396	-
(277,228)	(263,680)
12,815	-
579,987	200,954
5,233,435	5,032,481
\$ 5,813,422	\$ 5,233,435

\$ 116,654	\$ 144,260
-	-
(56,167)	235,100
(277,228)	(263,680)
(8,329)	(8,648)
(225,070)	107,032
3,862,429	3,755,397
\$ 3,637,359	\$ 3,862,429
\$ 2,176,063	\$ 1,371,006

62.57%	73.80%
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\$ 766,312	\$ 709,585
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284.0%	193.2%
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CITY OF DURAND, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
CITY'S FISCAL YEARS

	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	\$ 246,720	\$ 246,720	\$ -	\$ 901,757	27.36%
2019	228,666	228,666	-	944,832	24.20%
2018	219,463	219,463	-	1,033,652	21.23%
2017	209,594	209,594	-	1,024,557	20.46%
2016	116,654	116,654	-	730,056	15.98%
2015	86,879	86,879	-	685,484	12.67%

Valuation Date December 31, two years prior of the end of the fiscal year

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percent of payroll, closed
Discount Rate	7.60%
Remaining Amortization Period	20 years
Asset Valuation Method	5 years smoothed market value
Salary Increases	3.00%
Investment Rate of Return	7.35%
Retirement Age	Replacement Index up to 70, then 100%
Mortality	50% Male/50% Female blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, the RP-2014 Employee Mortality Tables and the RP-2014 Juvenile Mortality Tables. For disabled members, 50% Male/50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

* GASB Statement No. 68 was implemented for fiscal year ended June 30, 2015. The schedule is being built prospectively.

CITY OF DURAND, MICHIGAN

**RETIREE HEALTH BENEFITS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
PLAN YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability:			
Service cost	\$ 50,975	\$ 115,616	\$ 113,349
Interest	77,915	168,736	163,276
Differences between expected and actual experience	(2,717)	(189,616)	-
Changes in assumptions	(127,047)	172,941	-
Change in plan terms	-	(3,091,438)	-
Benefit payments, including refunds	<u>(91,714)</u>	<u>(94,489)</u>	<u>(99,336)</u>
 Change in total OPEB liability	 (92,588)	 (2,918,250)	 177,289
 Total OPEB liability, beginning of year	 <u>2,637,901</u>	 <u>5,556,151</u>	 <u>5,378,862</u>
 Total OPEB liability, end of year	 <u>\$ 2,545,313</u>	 <u>\$ 2,637,901</u>	 <u>\$ 5,556,151</u>
 Plan Fiduciary Net Position:			
Contributions to OPEB trust	\$ 22,784	\$ 20,000	\$ 100,000
Contributions/benefit payments from operating funds	91,714	94,489	99,336
Net investment income	6,190	6,189	6,243
Benefit payments, including refunds	(91,714)	(94,489)	(99,336)
Administrative expenses	<u>(256)</u>	<u>(236)</u>	<u>(220)</u>
 Net change in plan fiduciary net position	 28,718	 25,953	 106,023
 Plan fiduciary net position, beginning of year	 <u>131,976</u>	 <u>106,023</u>	 <u>-</u>
 Plan fiduciary net position, end of year	 <u>\$ 160,694</u>	 <u>\$ 131,976</u>	 <u>\$ 106,023</u>
 City's Net OPEB Liability - Ending	 <u>\$ 2,384,619</u>	 <u>\$ 2,505,925</u>	 <u>\$ 5,450,128</u>
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	 6.3%	 5.0%	 1.9%
 Covered Employee Payroll	 \$ 397,109	 \$ 505,318	 \$ 439,576
 City's Net OPEB Liability as a Percentage of Covered Employee Payroll	 600.5%	 495.9%	 1239.9%

* GASB Statement No. 75 was implemented for fiscal year ended June 30, 2018. These schedules are being built prospectively.

CITY OF DURAND, MICHIGAN

**RETIREE HEALTH BENEFITS
SCHEDULE OF CONTRIBUTIONS
CITY'S FISCAL YEARS**

	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2020	\$ 200,473	\$ 114,489	\$ 85,984	\$ 397,109	28.83%
2019	432,073	(1) 114,489	317,584	505,318	22.66%
2018	1,062,788	199,336	863,452	439,576	45.35%

Valuation Date: June 30, 2020

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level dollar, prior years level percent of payroll
Remaining Amortization Period	19 years
Discount Rate	2.99%
Salary Increases	3.50%
Investment Rate of Return	3.19%
Mortality	Pub-2010 Public Retirement Plans Mortality Tables for Public Safety/General Employees, Healthy Retirees, and Disabled Members; Annuitant, Sex Distinct.
Health Care Trend Rates	Medical premiums: Pre-Medicare, 8.25% graded down to 4.50% by 0.25% per year; Post-Medicare, 6.50% graded down to 4.50% by .25% per year
Marital Status	100% will have covered spouse at retirement with no age difference for females and males; actual spouse data used for retirees.

(1) Amortization period for unfunded liabilities was changed from 5 to 25 years.

* GASB Statement No. 75 was implemented for fiscal year ended June 30, 2018 and does not require retroactive implementation.

SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>	
	<u>Building Inspection</u>	<u>Ambulance</u>	<u>Street Projects</u>	<u>Sidewalks & Curbs</u>
Assets:				
Cash and cash equivalents	\$ 9,821	\$ 49,752	\$ 173,751	\$ 33,071
Receivables - accounts and interest	<u>1,155</u>	<u>3,853</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 10,976</u>	<u>\$ 53,605</u>	<u>\$ 173,751</u>	<u>\$ 33,071</u>
Liabilities:				
Accounts payable	<u>\$ 1,235</u>	<u>\$ 60</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:				
Restricted	9,741	53,545	173,751	-
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,071</u>
Total Fund Balances	<u>9,741</u>	<u>53,545</u>	<u>173,751</u>	<u>33,071</u>
Total Liabilities and Fund Balance	<u>\$ 10,976</u>	<u>\$ 53,605</u>	<u>\$ 173,751</u>	<u>\$ 33,071</u>

Debt Service Fund		
2012 Water Bond Debt		Total
\$ -		\$ 266,395
-		5,008
<u>\$ -</u>		<u>\$ 271,403</u>
<u>\$ -</u>		<u>\$ 1,295</u>
-		237,037
-		33,071
<u>-</u>		<u>270,108</u>
<u>\$ -</u>		<u>\$ 271,403</u>

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Special Revenue Funds		Capital Project Funds	
	Building Inspection	Ambulance	Street Projects	Sidewalks & Curbs
Revenues:				
Taxes	\$ -	\$ 83,457	\$ -	\$ -
Intergovernmental	7,860	827	-	-
Licenses and permits	26,835	-	-	10
Charges for services	2,615	-	-	-
Fines and forfeits	250	-	-	-
Special assessment	-	-	-	1,693
Total Revenues	<u>37,560</u>	<u>84,284</u>	<u>-</u>	<u>1,703</u>
Expenditures:				
Current -				
Public safety	50,892	-	-	-
Public works	-	-	426	-
Health and welfare	-	67,479	-	-
Total Expenditures	<u>50,892</u>	<u>67,479</u>	<u>426</u>	<u>-</u>
Revenues over (under) expenditures	<u>(13,332)</u>	<u>16,805</u>	<u>(426)</u>	<u>1,703</u>
Other Financing Sources (Uses):				
Transfers in from other funds	14,000	-	-	-
Transfers out to other funds	-	-	(2,267,591)	-
Total Other Financing Sources (Uses)	<u>14,000</u>	<u>-</u>	<u>(2,267,591)</u>	<u>-</u>
Net change in Fund Balance	668	16,805	(2,268,017)	1,703
Fund Balances at beginning of year	<u>9,073</u>	<u>36,740</u>	<u>2,441,768</u>	<u>31,368</u>
Fund Balances at end of year	<u>\$ 9,741</u>	<u>\$ 53,545</u>	<u>\$ 173,751</u>	<u>\$ 33,071</u>

Debt Service Fund	
2012 Water Bond Debt	Total
\$ -	\$ 83,457
-	8,687
-	26,845
-	2,615
-	250
-	1,693
<u>-</u>	<u>123,547</u>
-	50,892
-	426
-	67,479
<u>-</u>	<u>118,797</u>
-	4,750
-	14,000
(6,602)	(2,274,193)
<u>(6,602)</u>	<u>(2,260,193)</u>
(6,602)	(2,255,443)
<u>6,602</u>	<u>2,525,551</u>
<u>\$ -</u>	<u>\$ 270,108</u>

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
BUILDING INSPECTION FUND				
Revenues:				
Intergovernmental	\$ -	\$ 7,860	\$ 7,860	\$ -
Licenses and permits	30,795	26,920	26,835	(85)
Charges for services	6,305	2,590	2,615	25
Fines and forfeits	9,250	250	250	-
Total Revenues	46,350	37,620	37,560	(60)
Expenditures:				
Public Safety	45,561	54,280	50,892	3,388
Revenues over (under) expenditures	789	(16,660)	(13,332)	3,328
Other Financing Sources:				
Transfers in	400	16,660	14,000	(2,660)
Net change in Fund Balance	1,189	-	668	668
Fund Balance at beginning of year	9,073	9,073	9,073	-
Fund Balance at end of year	\$ 10,262	\$ 9,073	\$ 9,741	\$ 668
AMBULANCE FUND				
Revenues:				
Taxes	\$ 82,834	\$ 83,500	\$ 83,457	\$(43)
Intergovernmental	1,279	-	827	827
Other	5,833	-	-	-
Total Revenues	89,946	83,500	84,284	784
Expenditures:				
Health and Welfare	76,905	83,500	67,479	16,021
Net change in Fund Balance	13,041	-	16,805	16,805
Fund Balance at beginning of year	36,740	36,740	36,740	-
Fund Balance at end of year	\$ 49,781	\$ 36,740	\$ 53,545	\$ 16,805

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2020**

	Employee Benefit	Equipment Revolving	Total
Assets:			
Current Assets -			
Cash and cash equivalents	\$ 46,224	\$ 196,666	\$ 242,890
Receivables	1,419	52,910	54,329
Inventory	-	2,071	2,071
Prepaid expenses	30,134	-	30,134
Total Current Assets	77,777	251,647	329,424
Capital Assets -			
Property, plant and equipment	-	2,911,624	2,911,624
Less - accumulated depreciation	-	(2,051,941)	(2,051,941)
Total Capital Assets, Net	-	859,683	859,683
Total Assets	77,777	1,111,330	1,189,107
Liabilities:			
Current Liabilities -			
Accounts payable	20,196	4,551	24,747
Accrued expenses	109	223	332
Interest payable	-	5,620	5,620
Bonds/Notes payable (current portion)	-	222,735	222,735
Total Current Liabilities	20,305	233,129	253,434
Long-term Liabilities -			
Accrued vacation and sick	53,864	-	53,864
Notes payable (net of current portion)	-	184,595	184,595
Total Long-term Liabilities	53,864	184,595	238,459
Total Liabilities	74,169	417,724	491,893
Net Position:			
Net investment in capital assets	-	452,353	452,353
Unrestricted	3,608	241,253	244,861
Total Net Position	\$ 3,608	\$ 693,606	\$ 697,214

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Employee Benefit	Equipment Revolving	Total
Operating Revenues:			
Charges for services	\$ 489,678	\$ 226,882	\$ 716,560
Other	21,820	7,389	29,209
Total Operating Revenues	511,498	234,271	745,769
Operating Expenses:			
Personal services	514,402	67,126	581,528
Administrative expenses	-	40,000	40,000
Supplies and postage	-	28,093	28,093
Other services	-	107,798	107,798
Depreciation	-	147,787	147,787
Total Operating Expenses	514,402	390,804	905,206
Operating loss	(2,904)	(156,533)	(159,437)
Non-Operating (Expenses):			
Gain on sale of assets	-	42,440	42,440
Interest earned	-	432	432
Interest expense	-	(10,742)	(10,742)
Total Non-Operating Revenues (Expenses)	-	32,130	32,130
Net loss before capital contributions and transfers	(2,904)	(124,403)	(127,307)
Capital Contributions	-	14,148	14,148
Net loss before transfers	(2,904)	(110,255)	(113,159)
Transfers in	-	33,036	33,036
Change in Net Position	(2,904)	(77,219)	(80,123)
Net Position at beginning of year	6,512	770,825	777,337
Net Position at end of year	\$ 3,608	\$ 693,606	\$ 697,214

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Employee Benefit	Equipment Revolving	Total
Cash Flows From Operating Activities:			
Cash receipts from customers	\$ 24,725	\$ 8,589	\$ 33,314
Cash receipts from interfund services	489,678	226,882	716,560
Cash payments to suppliers	(473,172)	(131,918)	(605,090)
Cash payments to employees	4,550	(107,954)	(103,404)
Net Cash Provided by (Used in) Operating Activities	45,781	(4,401)	41,380
Cash Flows From Noncapital Financing Activities:			
Transfers from other fund	-	33,036	33,036
Cash Flows From Capital and Related Financing Activities:			
Bond/Note proceeds	-	176,901	176,901
Bond/Note payments	-	(205,810)	(205,810)
Capital grant proceeds	-	14,148	14,148
Interest paid on long term debt	-	(11,904)	(11,904)
Proceeds from sale of capital assets	-	123,339	123,339
Acquisition and construction of capital assets	-	(227,255)	(227,255)
Net Cash Used in Capital and Related Financing Activities	-	(130,581)	(130,581)
Cash Flows From Investing Activities:			
Interest earned	-	432	432
Net Increase (Decrease) in Cash and Cash Equivalents	45,781	(101,514)	(55,733)
Cash and Cash Equivalents at beginning of year	443	298,180	298,623
Cash and Cash Equivalents at end of year	\$ 46,224	\$ 196,666	\$ 242,890
Reconciliation of Operating Loss to			
Net Cash Provided by (Used in) Operating Activities:			
Operating loss	\$(2,904)	\$(156,533)	\$(159,437)
Adjustments to reconcile operating loss to net cash provided by operating activities -			
Depreciation	-	147,787	147,787
Receivables	2,905	1,200	4,105
Prepays	20,925	-	20,925
Inventory	-	20	20
Accounts payable/accrued expenses	24,855	3,125	27,980
Net Cash Provided by (Used in) Operating Activities	\$ 45,781	\$(4,401)	\$ 41,380

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

CITY OF DURAND, MICHIGAN

**BALANCE SHEET/STATEMENT OF NET POSITION
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2020**

	Operating Fund	GASB No. 34 Adjustments	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 79,124	\$ -	\$ 79,124
Capital assets (net of accumulated depreciation) -			
Assets not being depreciated	-	60,000	60,000
Assets being depreciated	-	235,190	235,190
	\$ 79,124	295,190	374,314
Total Assets	\$ 79,124	295,190	374,314
 Liabilities:			
Accrued interest	\$ -	3,860	3,860
Non-current liabilities -			
Due within one year	-	60,000	60,000
Due in more than one year	-	485,000	485,000
Total Liabilities	-	548,860	548,860
 Fund Balance:			
Restricted - Wednesday Night Live	10,241	(10,241)	-
Assigned	14,150	(14,150)	-
Unassigned	54,733	(54,733)	-
Total Fund Balance	79,124	(79,124)	-
Total Liabilities and Fund Balance	\$ 79,124		
 Net Position:			
Net investment in capital assets		220,190	220,190
Restricted		10,241	10,241
Unrestricted (deficit)		(404,977)	(404,977)
Total Net Position		\$(174,546)	\$(174,546)

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET FOR
GOVERNMENTAL (OPERATING) FUND TO THE STATEMENT OF NET POSITION
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2020**

Fund Balances - total governmental funds \$ 79,124

Amounts reported for Component Unit activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

Capital assets	579,037
Accumulated depreciation	(283,847)

Long-term liabilities, including installments payable, are not due and payable in the current period, and therefore, are not reported in the funds.

Installment loans and land purchase payable	(545,000)
Accrued interest payable	(3,860)

Net Position of Downtown Development Authority \$ (174,546)

CITY OF DURAND, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Operating Fund</u>	<u>GASB No. 34 Adjustments</u>	<u>Statement of Activities</u>
Revenues:			
Taxes	\$ 79,014	\$ -	\$ 79,014
Intergovernmental	8,806	-	8,806
Other	7,136	-	7,136
	<u>94,956</u>	<u>-</u>	<u>94,956</u>
Expenditures/Expenses:			
Community and Economic Development	15,304	17,961	33,265
Debt Service -			
Principal	55,000	(55,000)	-
Interest	24,462	(367)	24,095
	<u>94,766</u>	<u>(37,406)</u>	<u>57,360</u>
Net change in Fund Balance/Net Position	190	37,406	37,596
Fund Balance/Net Position at beginning of year	<u>78,934</u>	<u>(291,076)</u>	<u>(212,142)</u>
Fund Balance/Net Position at end of year	<u>\$ 79,124</u>	<u>\$(253,670)</u>	<u>\$(174,546)</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL (OPERATING)
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2020**

Net change in fund balances - governmental funds	\$ 190
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(17,961)
The issuance of long-term debt provides current financial resources to the operating fund, while the repayment of the principal of long-term debt consumes the current resources of the operating fund. Neither transaction, however, has any effect on net position.	
Principal payments on long-term liabilities	55,000
Decrease in accrued interest	<u>367</u>
Change in net position of Downtown Development Authority activities	<u>\$ 37,596</u>

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 74,325	\$ 79,000	\$ 79,014	\$ 14
Intergovernmental	7,453	8,800	8,806	6
Other	7,550	7,135	7,136	1
Total Revenues	<u>89,328</u>	<u>94,935</u>	<u>94,956</u>	<u>21</u>
Expenditures:				
Current -				
Community and Economic Development	11,341	16,180	15,304	876
Debt Service -				
Principal	55,000	55,000	55,000	-
Interest	26,552	24,462	24,462	-
Total Expenditures	<u>92,893</u>	<u>95,642</u>	<u>94,766</u>	<u>876</u>
Net Change in Fund Balance	(3,565)	(707)	190	897
Fund Balance at beginning of year	<u>78,934</u>	<u>78,934</u>	<u>78,934</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 75,369</u>	<u>\$ 78,227</u>	<u>\$ 79,124</u>	<u>\$ 897</u>

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Durand
Durand, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand (the “City”), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated December 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

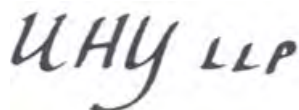
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are written in a cursive, slightly slanted style.

Port Huron, Michigan
December 1, 2020

AUDIT COMMUNICATION LETTER

To the Honorable Mayor and
Members of the City Council
City of Durand
Durand, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand (the “City”) for the year ended June 30, 2020, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated December 1, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated September 29, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Items

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate for depreciation. Management’s estimate is based on historical data and estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate for unbilled water and sewer charges, which are based on subsequent billings and historical data.

Management’s estimate for the City’s net pension liability, which is based on the Plan’s audit and actuarial valuation of the net pension liability.

Management’s estimate for the City’s net OPEB liability, which is based on the actuarial report which included various assumptions including estimated age of retirement, life expectancy, and expected future changes in health care costs and interest rates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the custodial credit risk of deposits in Note 3 to the financial statements indicates the City holds \$3,266,912 of total deposits, of which \$1,000,992 was covered by depository insurance with the remaining balance of \$2,265,920 uninsured and uncollateralized.

The disclosure of the City's net pension liability and the related deferred outflows of resources, as reported in Note 9 to the financial statements. The net pension liability of the City is \$2,581,185.

The disclosure of the City's net OPEB liability in Note 10 to the financial statements describes benefits provided to retirees other than pensions. This disclosure is particularly sensitive to financial statement users because of the dollar amount of the liability at year-end and the future impact this number will have if the annual required contribution is not met in future years. The net OPEB liability of the City is \$2,384,619.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Assistance with GASB Statement No. 34 Presentation

As a result of our assistance with the GASB Statement No. 34 presentation, we proposed several entries, which include adjusting the net pension liability and net OPEB liability for the governmental activities to the June 30, 2020 account balances to reflect the differences between the governmental funds and the government-wide financial statements. These entries are described on pages 14 and 17 of the Annual Financial Report.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 1, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant factors. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, we did not identify any deficiencies in internal control that we consider to be a material weakness.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

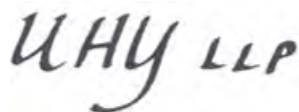
We applied certain limited procedures to the management’s discussion and analysis, employees’ retirement system and retiree health benefits schedules, and budgetary comparison information, which are all required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual funds, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the opportunity to be of service to the City Council of the City of Durand.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are written in a cursive, slightly slanted style.

Port Huron, Michigan
December 1, 2020