

**CITY OF DURAND, MICHIGAN**

**ANNUAL FINANCIAL REPORT  
with Supplementary Information**

**FOR THE YEAR ENDED  
JUNE 30, 2016**

**Stewart,  
Beauvais  
& Whipple P.C.**

CERTIFIED PUBLIC ACCOUNTANTS



# CITY OF DURAND, 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, 2016, 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, 2016, and 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 pension system 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 nonmajor governmental fund 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 November 21, 2016 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.



Certified Public Accountants

November 21, 2016

### OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand's (the "City") 2016 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 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 2016, the City had 8 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 \$14,801,084. This is an increase of \$274,191 over 2015. Governmental activities comprise \$6,414,946, and business-type activities make up \$8,386,138 of the total net position. In a condensed format, the table below shows net position as of June 30, 2016 and 2015.

### Condensed Statement of Net Position

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
<b>Assets</b>				
Current assets	\$ 2,097,921	\$ 1,536,330	\$ 2,587,248	\$ 2,587,830
Restricted assets	-	-	121,421	35,224
Capital assets	<u>8,544,863</u>	<u>8,211,587</u>	<u>14,454,218</u>	<u>8,970,373</u>
Total assets	<u>10,642,784</u>	<u>9,748,917</u>	<u>17,162,887</u>	<u>11,593,427</u>
<b>Deferred Outflows of Resources</b>	<u>492,204</u>	<u>75,819</u>	<u>138,828</u>	<u>21,384</u>
<b>Liabilities</b>				
Current liabilities	106,545	94,290	1,158,909	1,067,009
Non-current liabilities	<u>4,613,497</u>	<u>3,648,925</u>	<u>7,756,668</u>	<u>2,102,430</u>
Total liabilities	<u>4,720,042</u>	<u>3,743,215</u>	<u>8,915,577</u>	<u>3,169,439</u>
<b>Net Position</b>				
Net investment in capital assets	7,726,203	7,782,546	7,540,660	7,481,039
Restricted	807,986	466,102	101,197	15,000
Unrestricted	<u>(2,119,243)</u>	<u>(2,167,127)</u>	<u>744,281</u>	<u>949,333</u>
Total net position	<u>\$ 6,414,946</u>	<u>\$ 6,081,521</u>	<u>\$ 8,386,138</u>	<u>\$ 8,445,372</u>

The City's governmental activities experienced an increase in net position of \$333,425. The business-type activities experienced a decrease in net position of \$59,234.

The following table shows the changes in net position for 2016 and 2015:

**Condensed Statement of Activities**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Revenue</b>				
Program Revenue				
Charges for services	\$ 149,247	\$ 103,913	\$ 1,847,828	\$ 1,789,307
Operating grants and contributions	309,858	264,622	83,431	-
Capital grants and contributions	247,177	61,200	28,204	524,633
General Revenue				
Property taxes	1,466,298	1,468,052	-	-
State-shared revenue	411,568	412,992	-	-
Franchise fees	46,341	45,680	-	-
Unrestricted investment earnings	11,095	11,555	460	170
Gain on sale of assets	-	-	296,000	-
Transfers	268,351	(1,185)	(268,351)	1,185
Total Revenue	<u>2,909,935</u>	<u>2,366,829</u>	<u>1,987,572</u>	<u>2,315,295</u>
<b>Program Expenses</b>				
General government	394,567	346,840	-	-
Public safety	919,716	804,446	-	-
Public works	950,182	881,992	-	-
Health & welfare	70,234	75,634	-	-
Recreation and culture	202,770	204,359	-	-
Community & economic development	10,194	9,310	-	-
Interest on long-term debt	28,847	33,828	-	-
Water supply system	-	-	784,556	737,276
Wastewater	-	-	1,063,297	843,253
Refuse services	-	-	198,953	193,972
Total Program Expenses	<u>2,576,510</u>	<u>2,356,400</u>	<u>2,046,806</u>	<u>1,774,501</u>
Change in Net Position	<u>\$ 333,425</u>	<u>\$ 10,429</u>	<u>\$( 59,234)</u>	<u>\$ 540,794</u>

***Governmental Activities***

Revenues for governmental activities totaled \$2,909,935 in 2016. Of this amount, approximately \$1,466,298 or 50% of total revenue was received from taxes, followed by state-shared revenue of \$411,568 or 14% of total revenue.

***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 \$2,095. The Water and Refuse Service funds had net decreases of \$59,344 and \$1,985, respectively.



## **FINANCIAL ANALYSIS OF MAJOR FUNDS**

The General Fund ended 2016 with a fund balance of \$708,872, of which \$27,947 was nonspendable, \$30,607 was restricted, \$100,000 was committed, \$73,195 was assigned, and the remaining amount of \$477,123 was classified as unassigned. This is an increase of \$116,248 from the prior year.

The City's other major funds, the Major Street Fund and the Street Fund ended 2016 with fund balances of \$186,990 and \$360,826, respectively. This is an increase of \$68,469 for the Major Street Fund and an increase of \$235,914 in the Street Fund.

## **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:

- Intergovernmental Revenue was increased from \$428,000 to \$566,300 as a result of the final allocation of the DIG grant funding.
- General Administrative Expenses were increased from \$253,750 to \$527,200 mainly as a result of the funding of the DIG grant for the West Parking Lot and Pathway Improvements Project.
- Parks and Recreation Expenses were increased from \$71,325 to \$143,350 mainly as a result of expected ballfield improvements and the continued development of the Veterans Park.
- Debt Service - Principal and Note Proceeds were both increased due to additional borrowing required to finish the West Parking Lot and Pathway Improvements Project.

The only significant difference between the final budget and actual amounts was that Intergovernmental Revenue exceeded the budget by \$78,652 as a result of the final allocation of the DIG grant funding.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City had \$22,999,081 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2016. 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 \$6,693,692 of capital assets before taking into account depreciation. The City added \$834,912 in capital assets to the governmental activities. Major additions included finishing the DIG Project, a new Vactor truck, outfitting the dump truck purchased in the prior year, and a new Ford F-350. The business-type activities added \$5,858,780 mainly due to improvements to the wastewater and water supply systems, which includes the newly-completed West Parking Lot and Pathway Improvements Project and the ongoing USDA Rural Development Project for water and wastewater system improvements.

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

### **Long-term Liabilities**

At June 30, 2016, the City had \$8,561,946 in long-term liabilities, compared to \$2,980,272 at June 30, 2015. The City added two new installment purchase agreements: one to finish the West Parking Lot and Pathway Improvements Project and the other for the purchase of a new Vactor truck. The City also drew down approximately \$5,500,000 from USDA to continue to fund the project's water and wastewater system improvements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For fiscal 2016-17, the City Council adopted a General Fund budget with estimated revenues of \$2,031,650 and expenditures of \$2,104,845 and will use fund balance to cover the estimated shortfall of \$73,195.

## **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, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,601,429	\$ 1,096,866	\$ 2,698,295	\$ 127,850
Receivables	435,748	1,435,030	1,870,778	-
Prepaid expenses	53,070	12,907	65,977	133
Inventory	7,674	42,445	50,119	-
Restricted assets				
Cash and cash equivalents	-	121,421	121,421	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,694,914	7,075,663	8,770,577	60,000
Assets being depreciated	6,849,949	7,378,555	14,228,504	309,140
Total Assets	<u>10,642,784</u>	<u>17,162,887</u>	<u>27,805,671</u>	<u>497,123</u>
<b>Deferred Outflows of Resources:</b>				
Related to pension plan	<u>492,204</u>	<u>138,828</u>	<u>631,032</u>	<u>-</u>
<b>Liabilities:</b>				
Payables and accrued liabilities	90,717	1,112,317	1,203,034	556
Accrued interest	15,828	25,342	41,170	5,103
Deposits	-	21,250	21,250	-
Non-current liabilities				
Compensated absences	41,096	3,632	44,728	-
Net pension liability	1,697,329	478,734	2,176,063	-
Net OPEB obligation	1,271,412	360,744	1,632,156	-
Due within one year	375,950	249,000	624,950	45,000
Due in more than one year	1,227,710	6,664,558	7,892,268	705,000
Total Liabilities	<u>4,720,042</u>	<u>8,915,577</u>	<u>13,635,619</u>	<u>755,659</u>
<b>Net Position:</b>				
Net investment in capital assets	7,726,203	7,540,660	14,481,863 (1)	219,140
Restricted -				
Debt Service	23,621	75,000	98,621	-
Capital Improvements	-	26,197	26,197	-
Streets	693,958	-	693,958	-
Public Safety	59,800	-	59,800	-
Other	30,607	-	30,607	6,104
Unrestricted (deficit)	<u>( 2,119,243)</u>	<u>744,281</u>	<u>( 589,962)</u>	<u>( 483,780)</u>
Total Net Position	<u>\$ 6,414,946</u>	<u>\$ 8,386,138</u>	<u>\$ 14,801,084</u>	<u>\$ ( 258,536)</u>

(1) The total investment in Capital Assets has been reduced by \$785,000 for debt issued for Water and Sewer Capital, however the debt is being repaid by a tax levy.

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

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	\$ 394,567	\$ 81,000	\$ -	\$ 229,600
Public Safety	919,716	54,834	5,106	-
Public Works	950,182	4,428	304,752	-
Health and Welfare	70,234	-	-	-
Recreation and Cultural	202,770	8,985	-	17,577
Community and Economic Development	10,194	-	-	-
Interest on Long Term Debt	28,847	-	-	-
Total governmental activities	<u>2,576,510</u>	<u>149,247</u>	<u>309,858</u>	<u>247,177</u>
Business type activities:				
Water Supply System	784,556	725,212	-	-
Wastewater	1,063,297	925,648	83,431	28,204
Refuse Services	198,953	196,968	-	-
Total business type activities	<u>2,046,806</u>	<u>1,847,828</u>	<u>83,431</u>	<u>28,204</u>
Total Primary Government	<u>\$ 4,623,316</u>	<u>\$ 1,997,075</u>	<u>\$ 393,289</u>	<u>\$ 275,381</u>
<b>Component Unit</b>				
Downtown Development Authority	<u>\$ 73,809</u>	<u>\$ 6,650</u>	<u>\$ -</u>	<u>\$ 32,500</u>

General revenues:

Taxes

- Property taxes levied for general purposes
- Property taxes levied for streets
- Property taxes levied for debt purposes
- Property taxes levied for ambulance services

Grants and contribution not restricted to specific programs

- Sales taxes
- Franchise fees

Unrestricted investment income

Gain on sale of assets

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)
\$( 83,967)	\$ -	\$( 83,967)	\$ -
( 859,776)	-	( 859,776)	-
( 641,002)	-	( 641,002)	-
( 70,234)	-	( 70,234)	-
( 176,208)	-	( 176,208)	-
( 10,194)	-	( 10,194)	-
( 28,847)	-	( 28,847)	-
<u>( 1,870,228)</u>	<u>-</u>	<u>( 1,870,228)</u>	<u>-</u>
-	( 59,344)	( 59,344)	-
-	( 26,014)	( 26,014)	-
-	( 1,985)	( 1,985)	-
<u>-</u>	<u>( 87,343)</u>	<u>( 87,343)</u>	<u>-</u>
<u>( 1,870,228)</u>	<u>( 87,343)</u>	<u>( 1,957,571)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 34,659)</u>
1,024,316	-	1,024,316	74,675
119,796	-	119,796	-
251,765	-	251,765	-
70,421	-	70,421	-
411,568	-	411,568	-
46,341	-	46,341	-
11,095	460	11,555	-
-	296,000	296,000	-
268,351	( 268,351)	-	-
<u>2,203,653</u>	<u>28,109</u>	<u>2,231,762</u>	<u>74,675</u>
333,425	( 59,234)	274,191	40,016
<u>6,081,521</u>	<u>8,445,372</u>	<u>14,526,893</u>	<u>( 298,552)</u>
<u>\$ 6,414,946</u>	<u>\$ 8,386,138</u>	<u>\$ 14,801,084</u>	<u>\$( 258,536)</u>

**CITY OF DURAND, MICHIGAN**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<u>General</u>	<u>Major Street</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 357,945	\$ 187,847	\$ 360,826	\$ 217,305	\$ 1,123,923
Receivables -					
Accounts and interest	4,368	-	-	12,567	16,935
Due from other governmental units	349,602	29,003	-	32,495	411,100
Prepays and deposits	27,947	-	-	433	28,380
Inventory	-	4,015	-	1,338	5,353
 Total Assets	 <u>\$ 739,862</u>	 <u>\$ 220,865</u>	 <u>\$ 360,826</u>	 <u>\$ 264,138</u>	 <u>\$ 1,585,691</u>
 <b>Liabilities:</b>					
Accounts payable	\$ 19,287	\$ 33,700	\$ -	\$ 3,029	\$ 56,016
Accrued liabilities	11,703	175	-	911	12,789
 Total Liabilities	 <u>30,990</u>	 <u>33,875</u>	 <u>-</u>	 <u>3,940</u>	 <u>68,805</u>
 <b>Deferred Inflows of Resources:</b>					
Unavailable revenue	-	-	-	2,219	2,219
 <b>Fund Balances:</b>					
Nonspendable	27,947	4,015	-	1,771	33,733
Restricted	30,607	182,975	360,826	227,792	802,200
Committed	100,000	-	-	28,416	128,416
Assigned	73,195	-	-	-	73,195
Unassigned	477,123	-	-	-	477,123
 Total Fund Balances	 <u>708,872</u>	 <u>186,990</u>	 <u>360,826</u>	 <u>257,979</u>	 <u>1,514,667</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balance	 <u>\$ 739,862</u>	 <u>\$ 220,865</u>	 <u>\$ 360,826</u>	 <u>\$ 264,138</u>	 <u>\$ 1,585,691</u>

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

**CITY OF DURAND, MICHIGAN**

**RECONCILIATION OF THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

Fund Balances - total governmental funds	\$ 1,514,667
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	10,834,978
Accumulated depreciation	( 3,241,284)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	
Special assessments	2,219
Internal service funds are used by management to charge costs of the City's equipment revolving activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	879,581
Certain pension contributions and changes in pension plan liabilities are reported as deferred outflows of resources in the statement of net position, but are reported as expenditures in the governmental funds.	492,204
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	( 1,093,450)
Net pension liability	( 1,697,329)
Net OPEB obligation	( 1,271,412)
Accrued interest	( 5,228)
Net Position of governmental activities	<u>\$ 6,414,946</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, 2016**

	General	Major Street	Street	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 1,066,402	\$ -	\$ 119,796	\$ 322,186	\$ 1,508,384
Licenses and permits	46,341	-	-	30,006	76,347
Intergovernmental -					
Federal/State	644,952	187,570	-	117,182	949,704
Charges for services	21,049	-	-	14,275	35,324
Fines and forfeits	7,067	-	-	-	7,067
Interest and rent	40,641	-	387	79	41,107
Special assessments	-	-	-	2,209	2,209
Other	19,223	-	-	-	19,223
Total Revenues	<u>1,845,675</u>	<u>187,570</u>	<u>120,183</u>	<u>485,937</u>	<u>2,639,365</u>
<b>Expenditures:</b>					
General Government	519,472	-	-	-	519,472
Public Safety	715,775	-	-	32,901	748,676
Public Works	449,983	157,479	25,801	102,584	735,847
Health and Welfare	-	-	-	64,481	64,481
Recreation and Cultural	141,778	-	-	-	141,778
Community and					
Economic Development	10,194	-	-	-	10,194
Debt Service -					
Principal	62,232	-	-	232,000	294,232
Interest	9,308	-	-	20,229	29,537
Total Expenditures	<u>1,908,742</u>	<u>157,479</u>	<u>25,801</u>	<u>452,195</u>	<u>2,544,217</u>
Revenues over (under) expenditures	<u>( 63,067)</u>	<u>30,091</u>	<u>94,382</u>	<u>33,742</u>	<u>95,148</u>
<b>Other Financing Sources (Uses):</b>					
Note proceeds	150,000	-	-	-	150,000
Transfers in from other funds	68,351	48,378	200,000	26,090	342,819
Transfers out to other funds	<u>( 39,036)</u>	<u>( 10,000)</u>	<u>( 58,468)</u>	<u>-</u>	<u>( 107,504)</u>
Total Other Financing Sources and Uses	<u>179,315</u>	<u>38,378</u>	<u>141,532</u>	<u>26,090</u>	<u>385,315</u>
Net change in Fund Balance	116,248	68,469	235,914	59,832	480,463
Fund Balances at beginning of year	<u>592,624</u>	<u>118,521</u>	<u>124,912</u>	<u>198,147</u>	<u>1,034,204</u>
Fund Balances at end of year	<u>\$ 708,872</u>	<u>\$ 186,990</u>	<u>\$ 360,826</u>	<u>\$ 257,979</u>	<u>\$ 1,514,667</u>

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

**CITY OF DURAND, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2016**

Net change in fund balances - total governmental funds	\$	480,463
<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		332,825
Depreciation expense	(	362,091)
<p>Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Special assessments		2,219
<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		294,232
Decrease in accrued interest		690
Note proceeds	(	150,000)
<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	(	627,944)
Increase in contributions made subsequent to the pension plan's measurement date		10,353
Change in deferred outflows/inflows of resources as a result of changes of assumptions, differences between expected and actual experience, projected and actual earnings, and proportionate share differences		406,032
Increase in net OPEB obligation	(	181,486)
<p>Internal service funds are used by management to charge costs of the City's equipment revolving activities. The net revenues (expenses) attributable to those funds is reported with governmental activities in the statement of net position.</p>		
		128,132
Change in net position of governmental activities	\$	333,425

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

**CITY OF DURAND, MICHIGAN**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016**

	Business Type Activities-Enterprise Funds				Governmental
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
<b>Assets:</b>					
Current Assets:					
Cash and cash equivalents	\$ 280,816	\$ 782,805	\$ 33,245	\$ 1,096,866	\$ 477,506
Receivable - accounts and interest	141,951	193,037	11,492	346,480	7,713
Due from other governmental units	331,465	757,085	-	1,088,550	-
Inventory	41,312	1,133	-	42,445	2,321
Prepaid expenses	6,549	6,208	150	12,907	24,690
Total Current Assets	<u>802,093</u>	<u>1,740,268</u>	<u>44,887</u>	<u>2,587,248</u>	<u>512,230</u>
Restricted Assets:					
Cash and cash equivalents	24,564	96,857	-	121,421	-
Capital Assets:					
Property, plant and equipment	8,025,978	14,844,681	-	22,870,659	2,817,047
Less - accumulated depreciation	( 2,905,142)	( 5,511,299)	-	( 8,416,441)	( 1,865,878)
Total Capital Assets, Net	<u>5,120,836</u>	<u>9,333,382</u>	<u>-</u>	<u>14,454,218</u>	<u>951,169</u>
Total Assets	<u>5,947,493</u>	<u>11,170,507</u>	<u>44,887</u>	<u>17,162,887</u>	<u>1,463,399</u>
<b>Deferred Outflows of Resources:</b>					
Related to pension plan	69,414	69,414	-	138,828	-
<b>Liabilities:</b>					
Current Liabilities:					
Accounts payable	333,571	772,910	-	1,106,481	13,460
Accrued expenses	888	4,948	-	5,836	8,452
Accrued interest	7,897	17,445	-	25,342	10,600
Bonds/Notes payable (current portion)	33,000	216,000	-	249,000	65,134
Customer deposits	21,250	-	-	21,250	-
Total Current Liabilities	<u>396,606</u>	<u>1,011,303</u>	<u>-</u>	<u>1,407,909</u>	<u>97,646</u>
Long-Term Liabilities:					
Accrued vacation and sick	1,816	1,816	-	3,632	41,096
Net pension liability	239,367	239,367	-	478,734	-
Net OPEB obligation	142,235	218,509	-	360,744	-
Bonds/Notes payable (net of current portion)	1,735,465	4,929,093	-	6,664,558	445,076
Total Long-Term Liabilities	<u>2,118,883</u>	<u>5,388,785</u>	<u>-</u>	<u>7,507,668</u>	<u>486,172</u>
Total Liabilities	<u>2,515,489</u>	<u>6,400,088</u>	<u>-</u>	<u>8,915,577</u>	<u>583,818</u>
<b>Net Position:</b>					
Net investment in capital assets	3,352,371	4,188,289	-	7,540,660	440,959
Restricted	39,564	61,633	-	101,197	-
Unrestricted	109,483	589,911	44,887	744,281	438,622
Total Net Position	<u>\$ 3,501,418</u>	<u>\$ 4,839,833</u>	<u>\$ 44,887</u>	<u>\$ 8,386,138</u>	<u>\$ 879,581</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, 2016**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
<b>Operating Revenues:</b>					
Charges for services	\$ 702,443	\$ 898,570	\$ 190,462	\$ 1,791,475	\$ 873,876
Intergovernmental	-	83,431	-	83,431	-
Other	22,769	27,078	6,506	56,353	27,233
Total Operating Revenues	<u>725,212</u>	<u>1,009,079</u>	<u>196,968</u>	<u>1,931,259</u>	<u>901,109</u>
<b>Operating Expenses:</b>					
Personal services	220,401	289,702	-	510,103	546,325
Administrative expenses	163,000	163,000	40,000	366,000	40,000
Supplies and postage	24,564	39,063	2,253	65,880	36,177
Other services	151,297	227,972	156,700	535,969	112,511
Equipment rental	45,716	51,262	-	96,978	-
Depreciation	151,128	219,807	-	370,935	133,673
Total Operating Expenses	<u>756,106</u>	<u>990,806</u>	<u>198,953</u>	<u>1,945,865</u>	<u>868,686</u>
Operating Income (Loss)	<u>( 30,894)</u>	<u>18,273</u>	<u>( 1,985)</u>	<u>( 14,606)</u>	<u>32,423</u>
<b>Non-Operating Revenues (Expenses):</b>					
Gain on sale of assets	-	296,000	-	296,000	75,346
Interest income	-	460	-	460	151
Interest expense	<u>( 28,450)</u>	<u>( 72,491)</u>	<u>-</u>	<u>( 100,941)</u>	<u>( 12,824)</u>
Total Non-Operating Revenues (Expenses)	<u>( 28,450)</u>	<u>223,969</u>	<u>-</u>	<u>195,519</u>	<u>62,673</u>
Net Income (Loss) Before Capital Contributions and Transfers	<u>( 59,344)</u>	<u>242,242</u>	<u>( 1,985)</u>	<u>180,913</u>	<u>95,096</u>
<b>Capital Contributions</b>	<u>-</u>	<u>28,204</u>	<u>-</u>	<u>28,204</u>	<u>-</u>
Net Income (Loss) before transfers	<u>( 59,344)</u>	<u>270,446</u>	<u>( 1,985)</u>	<u>209,117</u>	<u>95,096</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	-	-	33,036
Transfers out	-	<u>( 268,351)</u>	-	<u>( 268,351)</u>	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>( 268,351)</u>	<u>-</u>	<u>( 268,351)</u>	<u>33,036</u>
Change in Net Position	<u>( 59,344)</u>	<u>2,095</u>	<u>( 1,985)</u>	<u>( 59,234)</u>	<u>128,132</u>
Net Position at beginning of year	<u>3,560,762</u>	<u>4,837,738</u>	<u>46,872</u>	<u>8,445,372</u>	<u>751,449</u>
Net Position at end of year	<u>\$ 3,501,418</u>	<u>\$ 4,839,833</u>	<u>\$ 44,887</u>	<u>\$ 8,386,138</u>	<u>\$ 879,581</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, 2016**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>					
Cash receipts from customers	\$ 722,969	\$ 925,575	\$ 197,306	\$ 1,845,850	\$ 25,760
Cash receipts (payments) from interfund services	( 208,716)	( 214,262)	( 40,000)	( 462,978)	833,876
Cash payments to suppliers	( 143,646)	( 90,484)	( 158,943)	( 393,073)	( 635,399)
Cash payments to employees	( 201,549)	( 264,991)	-	( 466,540)	( 54,842)
Net Cash Provided by (Used in) Operating Activities	<u>169,058</u>	<u>355,838</u>	<u>( 1,637)</u>	<u>523,259</u>	<u>169,395</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Bond/Note proceeds	1,307,991	3,814,000	-	5,121,991	328,548
Bond/Note payments	( 31,991)	( 217,000)	-	( 248,991)	( 27,697)
Capital grant proceeds	-	445,777	-	445,777	-
Interest paid on long term debt	( 20,553)	( 56,773)	-	( 77,326)	( 5,338)
Transfers for capital purposes	-	( 268,351)	-	( 268,351)	33,036
Proceeds from sale of capital assets	-	300,000	-	300,000	82,218
Acquisition of capital assets	( 1,460,892)	( 4,397,888)	-	( 5,858,780)	( 502,087)
Net Cash Used in Capital and Related Financing Activities	<u>( 205,445)</u>	<u>( 380,235)</u>	<u>-</u>	<u>( 585,680)</u>	<u>( 91,320)</u>
<b>Cash Flows From Investing Activities:</b>					
Interest earned	-	460	-	460	151
Net Increase (Decrease) in Cash and Cash Equivalents	( 36,387)	( 23,937)	( 1,637)	( 61,961)	78,226
Cash and cash equivalents at beginning of year	341,767	903,599	34,882	1,280,248	399,280
Cash and cash equivalents at end of year	<u>\$ 305,380</u>	<u>\$ 879,662</u>	<u>\$ 33,245</u>	<u>\$ 1,218,287</u>	<u>\$ 477,506</u>
<b>Reconciliation of Net Income (Loss) to Net Cash Provided By Operating Activities:</b>					
Operating income (loss) for the year	\$( 30,894)	\$ 18,273	\$( 1,985)	\$( 14,606)	\$ 32,423
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -					
Depreciation	151,128	219,807	-	370,935	133,673
Change in assets and liabilities:					
Receivable	( 2,543)	( 73)	338	( 2,278)	( 1,473)
Prepaid and deposits	( 65)	( 338)	10	( 393)	( 9,140)
Inventory	( 10,371)	( 583)	-	( 10,954)	76
Deferred outflows of resources	( 58,722)	( 58,722)	-	( 117,444)	-
Accounts payable/accrued expenses	120,525	177,474	-	297,999	13,836
Net Cash Provided by (Used in) Operating Activities	<u>\$ 169,058</u>	<u>\$ 355,838</u>	<u>\$( 1,637)</u>	<u>\$ 523,259</u>	<u>\$ 169,395</u>

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

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 Organizations** - The Durand Union Station, Inc. (a nonprofit 501(c)(3) corporation), 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 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, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### 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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Agency funds do not have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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, are recorded only when payment is due.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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.

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.

**Street Fund** - is a special revenue fund used to account for a tax millage and other related revenues restricted for streets maintenance and improvements.

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 Type -**

**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.

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

**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.

**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, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**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 services 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 between funds, as reported in the fund financial statements, are reported as nonspendable to indicate that they are not available for appropriation and are not expendable available financial resources.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Property Tax Receivables -**

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

**Inventories and Prepaid Items -**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except DPW supplies, 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 Tax Calendar -**

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, 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 16.5304 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 16.5304 mills for general governmental purposes plus 4.2000 mills for debt service, 2.0000 mills for streets, 1.1750 mills for ambulance services, and .2500 for public transportation.

**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 fair market 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 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, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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:

	<u>Primary Government</u>	<u>Component Unit (DDA)</u>
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 Obligations -**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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.

**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 has the following items that qualify for reporting in this category: pension payments made subsequent to the measurement date, pension related changes in assumptions, differences between expected and actual experience, and the net difference between expected and actual plan investment earnings, which are all reported on the government-wide and proprietary fund statements of net position. The contributions made subsequent to the measurement date are recognized in the following plan year, and the other pension related deferred outflows of resources are amortized over the expected remaining service lives of the participants, with the exception of the net difference between expected and actual plan investment earnings which is amortized over five (5) years.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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 has one item that qualifies for reporting in this category. The City had unavailable revenues relating to special assessments, which are reported in the fund financial statements, that were not due and collected within the availability period. These amounts are deferred and recognized as an inflow of resources in the period collected.

**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.

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.

**Federal Programs -**

Federal programs are accounted for in the General, Water, Wastewater, and DDA Funds of the City. The City has not integrated its Single Audit Reports and Schedule of Expenditures of Federal Awards as part of the Annual Financial Report. The Single Audit will be issued prior to March 31, 2017, under a separate cover as supplementary information to the Annual Financial Report.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**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. 75, *Accounting and Financial Reporting for Postemployment Benefit Plan Other Than Pension Plans*, was issued in June 2015 and will become effective for the City's June 30, 2018 fiscal year. The statement requires governments providing defined benefit plans to report the net OPEB liability in their statement of net position. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets accumulated in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued in August 2015 and will become effective for the City's June 30, 2017 fiscal year. The statement requires governments that enter into tax abatement agreements to disclose certain information about agreements, including the tax being abated, the authority under which abatements are provided, the gross dollar amount of taxes abated during the period, and commitments made by the government.

**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.

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.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

- 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, and Local Streets 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.

The General, Major Street, and Local Street Fund budgets are approved at the activity level and the total expenditure level for all other Special Revenue Funds and DDA. Expenditures in excess of these legally adopted levels are a violation of the Budgetary Act. During the year, the City incurred expenditures in the General Fund and Major Street Fund, which were in excess of the amounts appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Primary Government -			
General Fund			
General Government -			
Assessor	\$ 27,540	\$ 28,381	\$ 841
City Clerk	132,300	133,314	1,014
Treasurer	116,565	116,744	179
Debt Service -			
Principal	62,225	62,232	7
Interest	9,300	9,308	8
Major Street Fund			
Public Works -			
Maintenance - Preservation	51,610	53,063	1,453

**Pension Contributions -**

All eligible employees hired after January 1, 2009 are part of the MERS Hybrid Plan; however, the necessary paperwork has not been filed and/or approved by MERS. As a result, contributions for employees hired since that date have not been made.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

As of June 30, 2016, 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	1,654,171	127,800	1,781,971
Savings/Money Markets	913,846	-	913,846
Total Deposits	2,568,017	127,800	2,695,817
Investments -			
Investment Pools	251,449	-	251,449
	\$ 2,819,716	\$ 127,850	\$ 2,947,566

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

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, 2016, the bank balance of the City's deposits was \$3,165,334, of which \$909,307 was insured with the remaining balance of \$2,256,027 exposed to credit risk because it is uninsured and uncollateralized.

# CITY OF DURAND, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

#### **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, 2016, the City was invested in an investment pool in the amount of \$251,449. The investment pool invests exclusively in U.S. Treasury obligations and repurchase agreements fully collateralized by U.S. Treasury obligations. The pool has an AAAM rating and an average weighted maturity of 54 days. 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 No. 72.

The investment pools are not subject to regulatory oversight and are not registered with the SEC, however, issues a separate audited financial statement. The investment pools operate like a money market fund, with each share valued at \$1.00. The fair value of the City's position in the pool is the same as the value of each fund's pool share.

**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.

**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.



**CITY OF DURAND, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 - RECEIVABLES:**

Receivables in the governmental and business type activities as of June 30, 2016 are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Interest and accounts	\$ 24,648	\$ 346,480
Intergovernmental	<u>411,100</u>	<u>1,088,550</u>
	<u>\$ 435,748</u>	<u>\$ 1,435,030</u>

**NOTE 5 - CAPITAL ASSETS:**

**Primary Government -**

Capital asset activity of the primary government for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015 Balance</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>June 30, 2016 Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,694,914	\$ -	\$ -	\$ 1,694,914
Construction in progress - Street Improvement	<u>112,738</u>	<u>260,028</u>	<u>372,766</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,807,652</u>	<u>260,028</u>	<u>372,766</u>	<u>1,694,914</u>
Capital assets, being depreciated:				
Buildings and improvements	4,099,738	24,419	-	4,124,157
Infrastructure	4,464,887	421,144	-	4,886,031
Machinery and equipment	1,304,257	409,682	236,470	1,477,469
Vehicles	<u>1,377,049</u>	<u>92,405</u>	<u>-</u>	<u>1,469,454</u>
Total capital assets, being depreciated	<u>11,245,931</u>	<u>947,650</u>	<u>236,470</u>	<u>11,957,111</u>
Less accumulated depreciation:				
Buildings and improvements	1,861,083	127,787	-	1,988,870
Infrastructure	906,816	230,268	-	1,137,084
Machinery and equipment	1,129,693	72,330	229,598	972,425
Vehicles	<u>943,404</u>	<u>65,379</u>	<u>-</u>	<u>1,008,783</u>
Total accumulated depreciation	<u>4,840,996</u>	<u>495,764</u>	<u>229,598</u>	<u>5,107,162</u>
Total capital assets, being depreciated, net	<u>6,404,935</u>	<u>451,886</u>	<u>6,872</u>	<u>6,849,949</u>
Governmental activities, net	<u>\$ 8,212,587</u>	<u>\$ 711,914</u>	<u>\$ 379,638</u>	<u>\$ 8,544,863</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

	<u>July 1, 2015</u>		<u>Deletions/</u>	<u>June 30, 2016</u>
	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 151,400	\$ -	\$ 4,000	\$ 147,400
Construction in progress -				
Water	397,520	1,448,743	-	1,846,263
Sanitary sewer	<u>1,501,362</u>	<u>4,333,200</u>	<u>752,562</u>	<u>5,082,000</u>
Total capital assets, not being depreciated	<u>2,050,282</u>	<u>5,781,943</u>	<u>756,562</u>	<u>7,075,663</u>
Capital assets, being depreciated:				
Buildings and improvements	3,824,802	-	-	3,824,802
Machinery and equipment	70,999	-	-	70,999
Vehicles	27,793	-	-	27,793
Wastewater system	5,379,001	817,250	3,041	6,193,210
Water System	<u>5,666,043</u>	<u>12,149</u>	<u>-</u>	<u>5,678,192</u>
Total capital assets, being depreciated	<u>14,968,638</u>	<u>829,399</u>	<u>3,041</u>	<u>15,794,996</u>
Less accumulated depreciation:				
Building and improvements	2,803,213	80,513	-	2,883,726
Machinery and equipment	70,866	133	-	70,999
Vehicles	15,913	3,868	-	19,781
Waste Water system	2,640,982	141,512	3,041	2,779,453
Water system	<u>2,517,573</u>	<u>144,909</u>	<u>-</u>	<u>2,662,482</u>
Total accumulated depreciation	<u>8,048,547</u>	<u>370,935</u>	<u>3,041</u>	<u>8,416,441</u>
Total Capital assets, being depreciated, net	<u>6,920,091</u>	<u>458,464</u>	<u>-</u>	<u>7,378,555</u>
Business-type activities, net	<u>\$ 8,970,373</u>	<u>\$ 6,240,407</u>	<u>\$ 756,562</u>	<u>\$ 14,454,218</u>
<b>Component Unit (DDA):</b>				
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	48,000	150,000	-	198,000
Machinery and equipment	<u>22,530</u>	<u>-</u>	<u>-</u>	<u>22,530</u>
Total capital assets, being depreciated	369,037	150,000	-	519,037
Less accumulated depreciation	<u>194,830</u>	<u>15,067</u>	<u>-</u>	<u>209,897</u>
Total capital assets, being depreciated, net	<u>174,207</u>	<u>134,933</u>	<u>-</u>	<u>309,140</u>
Component unit capital assets, net	<u>\$ 234,207</u>	<u>\$ 134,933</u>	<u>\$ -</u>	<u>\$ 369,140</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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

Governmental Activities:	
General Government	\$ 28,568
Public Safety	10,036
Public Works	232,323
Health and Welfare	5,753
Recreation and Cultural	<u>85,411</u>
Depreciation Expense - Governmental Activities	362,091
Depreciation Expense - Internal Service Funds	<u>133,673</u>
Total Depreciation Expense - Governmental Activities	\$ <u>495,764</u>
Business-type Activities:	
Water Fund	\$ 151,128
Wastewater Fund	<u>219,807</u>
Total Depreciation Expense - Business-type Activities	\$ <u>370,935</u>
Component unit activities:	
Downtown Development Authority	\$ <u>15,067</u>

**Construction/Purchase Commitments -**

The City has committed to the following contracts at June 30, 2016 (These commitments do not include any change orders made after June 30, 2016):

	<u>Contract Amount</u>	<u>Payments Through 6/30/16</u>	<u>Accounts Payable/ Retention</u>	<u>Remaining Balance 6/30/16</u>
USDA Rural Development Project -				
Infrastructure improvements	\$ 7,698,900	\$ 5,001,216	\$ 263,222	\$ 2,434,462
Engineering	1,206,800	910,363	37,925	258,512
Sanitary Sewer Rehab	295,776	220,956	11,629	63,191
Water Tank Storage Improvements	396,550	216,400	83,705	96,445
Water Plan Filter Media	72,201	27,525	1,449	43,227
SAW Grant Project -				
Engineering	471,200	135,888	16,846	318,466

**NOTE 6 - PAYABLES:**

Payables in the governmental and business-type activities as of June 30, 2016 are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable and retainage	\$ 69,476	\$ 1,106,481
Accrued wages and fringe benefits	<u>21,241</u>	<u>5,836</u>
	\$ <u>90,717</u>	\$ <u>1,112,317</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 7 - INTERFUND TRANSFERS:**

**Transfers In/Out Other Funds -**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Wastewater Fund	\$ 68,351 (1)
Street Fund	Wastewater Fund	200,000 (1)
Local Street Fund	Major Street Fund	10,000 (2)
	Street Fund	10,090 (2)
Major Street Fund	Street Fund	48,378 (2)
Sidewalks & Curbs Fund	General Fund	6,000 (2)
Equipment Revolving Fund	General Fund	<u>33,036 (3)</u>
Total Transfers		<u>\$ 375,855</u>

- (1) Board-approved allocation of land sale proceeds
- (2) Funding of current/future improvements
- (3) Appropriation for debt service

**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, 2016:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Funds -					
2012 G.O. Bonds Refunding	\$ 1,017,000	\$ -	\$ 232,000	\$ 785,000	\$ 247,000
2004 Installment Purchase - Land	180,682	-	37,232	143,450	38,816
2015 Installment Purchase - Land	40,000	-	10,000	30,000	10,000
2015 Installment Purchase - Infrastructure	<u>-</u>	<u>150,000</u>	<u>15,000</u>	<u>135,000</u>	<u>15,000</u>
Total Governmental Funds	<u>1,237,682</u>	<u>150,000</u>	<u>294,232</u>	<u>1,093,450</u>	<u>310,816</u>
Internal Service Funds -					
2012 Installment Purchase - Fire Truck	209,359	-	27,697	181,662	28,404
2015 Installment Purchase - Vactor	-	328,548	-	328,548	36,730
Compensated Absences	<u>42,573</u>	<u>-</u>	<u>1,477</u>	<u>41,096</u>	<u>-</u>
Total Internal Service Funds	<u>251,932</u>	<u>328,548</u>	<u>29,174</u>	<u>551,306</u>	<u>65,134</u>
Total Governmental Activities	<u>\$ 1,489,614</u>	<u>\$ 478,548</u>	<u>\$ 323,406</u>	<u>\$ 1,644,756</u>	<u>\$ 375,950</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

	<u>Balance</u> <u>July 1,</u> <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30,</u> <u>2016</u>	<u>Due Within</u> <u>One Year</u>
Enterprise Funds -					
Wastewater Fund -					
Revenue Bonds -					
SDS, Series 2012, Refunding	\$ 241,000	\$ -	\$ 82,000	\$ 159,000	\$ 80,000
SDS, Series 2015 A	360,000	1,594,093	71,000	1,883,093	72,000
SDS, Series 2015 B	137,259	1,396,741	25,000	1,509,000	25,000
SDS, Series 2015 C	361,619	1,121,381	24,000	1,459,000	24,000
2015 Installment Purchase -					
Infrastructure	-	150,000	15,000	135,000	15,000
Compensated Absences	662	1,154	-	1,816	-
Water Fund -					
Revenue Bonds -					
WSS, Series 2015 A	78,000	915,456	20,991	972,465	21,000
WSS, Series 2015 B	311,456	495,544	11,000	796,000	12,000
Compensated Absences	<u>662</u>	<u>1,154</u>	<u>-</u>	<u>1,816</u>	<u>-</u>
Total Business-type Activities	<u>1,490,658</u>	<u>5,675,523</u>	<u>248,991</u>	<u>6,917,190</u>	<u>249,000</u>
Total Primary Government	<u>\$ 2,980,272</u>	<u>\$ 6,154,071</u>	<u>\$ 572,397</u>	<u>\$ 8,561,946</u>	<u>\$ 624,950</u>

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

**General Obligation Bond -**

During 2012, the City advance refunded the 2001 G.O. Water Refunding Bonds with general obligation unlimited tax refunding bonds in the amount of \$1,485,000 dated March 29, 2012 due in installments of \$141,000 to \$276,000 through May 1, 2019, with interest of 1.98% payable semi-annually to purchase U.S. government securities that were placed in escrow for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. The principal balance of the defeased bonds at June 30, 2016 is \$795,000.

\$ 785,000

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Water and Wastewater Revenue Bonds -**

During 2011, the City advance refunded the Series 1999 Wastewater Treatment Bonds with revenue refunding bonds in the amount of \$598,000 dated August 31, 2011 due in installments of \$14,000 to \$86,000 through May 1, 2018, with interest of 4.30% payable semi-annually to purchase U.S. government securities that were placed in escrow for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. The principal balance of the defeased bonds at June 30, 2016 is \$200,000.	\$ 159,000
Water Supply System ("WSS") Revenue Bonds, Series 2015 A, for \$1,473,000 through the United States Department of Agriculture, 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%. As of June 30, 2016, only \$993,456 of the bonds has been drawn.	972,465
WSS Revenue Bonds, Series 2015 B, for \$807,000 through the United States Department of Agriculture, 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%.	796,000
Sewage Disposal System ("SDS") Revenue Bonds, Series 2015 A, for \$4,393,000 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%. As of June 30, 2016, only \$1,534,000 of the bonds has been drawn.	1,883,093
SDS Revenue Bonds, Series 2015 B, for \$1,534,000 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%.	1,509,000
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%.	<u>1,459,000</u>
	<u>\$ 6,778,558</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Installment Purchases -**

On September 2, 2004, the City entered into an installment purchase agreement to finance a purchase of real estate in the amount of \$490,000. The note is payable over fifteen years with an interest rate of 4.25%.	\$	143,450
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 are due annually over nine years with an interest rate of 2.55%.		181,662
During 2015, the City entered into an agreement for the purchase of real estate including entering into a land contract for \$60,000, of which \$20,000 will be paid by the DDA. The General Fund portion is due in four annual installments of \$10,000 with no interest.		30,000
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%.		270,000
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. Payments are due annually over five years with interest payable annually at 2.5%		328,548
	\$	<u>953,660</u>

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2016 (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
2017	\$ 247,000	\$ 15,543	\$ 141,000	\$ 90,915	\$ 143,950	\$ 25,778
2018	262,000	10,652	142,000	86,127	147,260	21,664
2019	276,000	5,468	63,000	82,174	150,684	17,437
2020	-	-	66,000	80,762	122,113	13,088
2021	-	-	67,000	79,276	237,439	10,043
2022-2026	-	-	357,000	373,144	152,214	8,861
2027-2031	-	-	400,000	331,170	-	-
2032-2036	-	-	446,000	284,100	-	-
2037-2041	-	-	500,000	231,430	-	-
2042-2046	-	-	560,000	172,274	-	-
2047-2051	-	-	624,000	106,146	-	-
2052-2055	-	-	557,000	32,008	-	-
	<u>\$ 785,000</u>	<u>\$ 31,663</u>	<u>\$ 3,923,000</u>	<u>\$ 1,949,526</u>	<u>\$ 953,660</u>	<u>\$ 96,871</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

As of June 30, 2016, the City had incurred \$2,855,558 of expenditures eligible to be drawn down for the Rural Development Water and Wastewater Loan Program. As of June 30, 2016, the construction has not been completed, and a final payment schedule has not been determined. Therefore, the payments are not included in the maturity table above for WSS, Series 2015 A, and SDS, Series 2015 A.

**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 \$1,816, \$1,816, and \$41,096, respectively, at June 30, 2016.

**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, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Downtown Development Authority -					
Tax Development Bonds	\$ 625,000	\$ -	\$ 25,000	\$ 600,000	\$ 25,000
2015 Installment Purchase - Land	20,000	-	5,000	15,000	5,000
2015 Installment Purchase Agreement	-	150,000	15,000	135,000	15,000
Total Downtown Development Authority	<u>\$ 645,000</u>	<u>\$ 150,000</u>	<u>\$ 45,000</u>	<u>\$ 750,000</u>	<u>\$ 45,000</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

\$ 600,000

During 2015, the City entered into an agreement for the purchase of real estate including entering into a land contract for \$60,000, of which \$40,000 will be paid by the City's General Fund. The DDA portion is due in four annual installments of \$5,000 with no interest.

15,000

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%.

135,000

\$ 750,000



**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2016 are as follows:

Year Ending June 30,	Development Bonds		Installment Purchases	
	Principal	Interest	Principal	Interest
2017	\$ 25,000	\$ 26,438	\$ 20,000	\$ 3,618
2018	30,000	25,200	20,000	3,216
2019	35,000	23,738	20,000	2,814
2020	40,000	22,050	15,000	2,412
2021	45,000	20,138	15,000	2,010
2022-2026	280,000	65,925	60,000	4,020
2027	<u>145,000</u>	<u>6,638</u>	<u>-</u>	<u>-</u>
	<u>\$ 600,000</u>	<u>\$ 190,127</u>	<u>\$ 150,000</u>	<u>\$ 18,090</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 (all 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](http://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 as contributions are 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, 2015 was comprised of 14 active participants, 18 retirees and beneficiaries, and 6 other vested inactive participants.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**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. 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 2.00%.

Hybrid Plan member benefits are calculated as 1.50% of the employees' three-year final average compensation.

Benefit terms, within the parameters established by MERS, are established and amended by authority of 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. The City contributes 15.28% for police and fire employees and 16.64% for all other employees for fiscal 2016. 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. At June 30, 2016, \$12,669 was payable to the Plan relating to June 2016 contributions.

**Net Pension Liability -**

The net pension liability of the City has been measured as of December 31, 2015 as determined by an actuarial valuation performed as of that date and is composed of the following:

	<u>Total Pension Liability</u>	<u>Plan's Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2014	\$ 5,233,435	\$ 3,862,429	\$ 1,371,006
Service cost	62,727	-	62,727
Interest on total pension liability	410,095	-	410,095
Differences between expected and actual experience	90,182	-	90,182
Changes in assumptions	281,396	-	281,396
Net investment income	-	( 56,167)	56,167
Contributions from employer	-	116,654	( 116,654)
Benefit payments	( 277,228)	( 277,228)	-
Administrative costs	-	( 8,329)	8,329
Other changes	12,815	-	12,815
Balance at December 31, 2015	<u>\$ 5,813,422</u>	<u>\$ 3,637,359</u>	<u>\$ 2,176,063</u>

Plan fiduciary net position as a percentage of the total pension liability 63%

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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

At June 30, 2016, the City had a net pension liability of \$2,176,063. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2016, the City recognized pension expense of \$271,228 in the government-wide and proprietary fund financial statements of the primary government. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>Primary Government:</b>		
Net difference between projected and actual earnings on Plan investments	\$ 328,387	\$ -
Contributions made subsequent to the measurement date	54,926	-
Differences between expected and actual experience	60,121	-
Changes in assumptions	<u>187,598</u>	<u>-</u>
	<u>\$ 631,032</u>	<u>\$ -</u>

The amounts of deferred outflows of resources and deferred inflows 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:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 209,428	\$ -
2018	209,428	-
2019	85,569	-
2020	<u>71,681</u>	<u>-</u>
	<u>\$ 576,106</u>	<u>\$ -</u>

**Actuarial Assumptions -**

The total pension liability was determined by an actuarial valuation as of December 31, 2015. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from December 31, 2009 through December 31, 2013.

**Salary increases -** 3% in 2016, and 4.50 % thereafter

**Inflation -** 2.5%

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Investment rate of return** - 8.25%, 8.00 % on December 31, 2015 and thereafter.

**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 8.00 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the difference between 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.

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, 2015 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	57.5%	5.0%
Global Fixed Income	20.0	2.2
Real Assets	12.5	4.2
Diversifying Strategies	10.0	6.6

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Discount Rate (8.00%)	Current 1 % Increase (9.00%)
Net pension liability	\$ 2,852,689	\$ 2,176,063	\$ 1,600,828

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 Retiree Health Plan) to eligible employees 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 (employees hired after January 1, 2008 or January 1, 2009 for administrative staff are not eligible). Employees receive four percent (4%) towards the healthcare benefits for every year of service. Benefits provided by the Retiree Health 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.

The Retiree Health Plan does not issue a publicly available financial report.

**Contribution and Funding Policy -**

The City funds the benefits on a pay-as-you-go method for current retirees. The Retiree Health Plan requires member contributions for those employees with less than 25 years of employment. During the year ended June 30, 2016, employer contributions of \$107,713 were made by the City.

**Annual OPEB Cost and Net OPEB Obligation -**

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount calculated in accordance with the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period not to exceed thirty years. The actuarial valuations for the Retiree Health Plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The City's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation are as follows:

	<u>Primary</u>	
	<u>Government</u>	
Annual required contribution	\$	364,756
Interest on net OPEB obligation		56,003
Adjustment to annual required contribution	(	<u>80,967)</u>
		339,792
Contributions made	(	<u>107,713)</u>
Increase in net OPEB obligation		232,079
Net OPEB obligation – beginning of year		<u>1,400,077</u>
Net OPEB obligation – end of year	\$	<u><u>1,632,156</u></u>

**Schedule of Employer Contributions -**

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 348,741	30.1 %	\$ 1,158,990
June 30, 2015	344,092	30.0	1,400,077
June 30, 2016	339,792	31.7	1,632,156

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**Funded Status and Funding Progress -**

The projection of future benefit payments for the ongoing Retiree Health Plan involves estimates for the value of reported amounts and assumptions about the probability or occurrence of events far into the future. Amounts determined regarding the funded status of the Retiree Health Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress is as follows:

Actuarial Valuation Date	Actuarial Value of of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
2010 *	\$ -	\$ 4,923,332	\$ 4,923,332	0 %	\$ 918,263	536.15 %
2011	-	3,568,337	3,568,337	0	915,911	389.59
2014	-	5,011,459	5,011,459	0	829,828	603.92

\* During the year the 2010 valuation was revised to correct items that were handled incorrectly. As a result, Actuarial Accrued Liability (AAL) was decreased from \$6,069,946 to \$4,923,332 and the required annual contribution was decreased from \$539,518 to \$386,822 for fiscal 2010.

**Methods and Assumptions -**

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The benefit costs were developed using the entry age cost method. The assumptions included (a) 4.0% investment rate of return, (b) 4.0% discount rate, (c) projected health care premium increases of 5.25% to 6.55% per year, (d) life expectancies based on mortality tables from the National Center for Health Statistics, (e) assumed retirement age of 60 or earlier based on pension requirements. The unfunded actuarial accrued liability of the Retiree Health Plan is being amortized over 30 years on an open period.

**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.

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 11 - RISK MANAGEMENT - (cont'd):**

**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 is self-insured for the deductible on health insurance up to \$2,500 per contract. The benefits are handled by a third-party administrator. The City has purchased insurance coverage for any amounts that may be due in excess of the deductible amount. The City incurred and paid claims during 2016 and 2015 totaling \$9,286 and \$17,985, respectively.

**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, 2016.

**NOTE 13 - FUND BALANCE/NET POSITION:**

The fund balance and net position for the Primary Government and Component Unit has been reported as nonspendable, restricted, committed, or assigned as follows:

**Primary Government:**

Fund Balance:

Nonspendable:

General Fund -	
Prepays and deposits	\$ 27,947
Major Street Fund -	
Inventory	4,015
Local Street Fund -	
Inventory	1,338
Ambulance Fund -	
Prepays and deposits	<u>433</u>
	<u>\$ 33,733</u>

**CITY OF DURAND, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Restricted:	
General Fund -	
Park Donations - General	\$ 5,086
Park Development - Veterans Memorial	10,371
Park Development - Diamond District Park	7,716
Drug Forfeiture	4,525
Other	2,909
Major Street Fund -	
Street Maintenance and Improvements	182,975
Street Fund Fund -	
Street Maintenance and Improvements	360,826
Local Street Fund -	
Street Maintenance and Improvements	144,804
Building Inspection Fund -	
Inspections	42,135
Ambulance Fund -	
Ambulatory Service	17,232
2012 Water Bond Debt -	
Debt Service	<u>23,621</u>
	<u>\$ 802,200</u>
Committed:	
General Fund -	
Other Postemployment Benefit Costs	\$ 100,000
Sidewalks and Curbs Fund -	
Sidewalk and Curb Improvement	<u>28,416</u>
	<u>\$ 128,416</u>
Assigned:	
General Fund -	
2016-2017 Budget	<u>\$ 73,195</u>
Restricted Net Position:	
Water Fund -	
Debt retirement	\$ 19,200
Well head protection	15,000
Repairs, replacements, and improvements	<u>5,364</u>
	<u>39,564</u>
Sewer Fund -	
Debt retirement	55,800
Repairs, replacements, and improvements	<u>5,833</u>
	<u>61,633</u>
	<u>\$ 101,197</u>



CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

Component Unit:

Nonspendable:		
Prepays	\$	133
Restricted:		
Downtown Development Authority - Wednesday Night Live		6,104
Assigned:		
2016-2017 Budget		<u>33,743</u>
	\$	<u>39,980</u>

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 \$600,000 used to purchase the property.

NOTE 15 - OPTIONS TO PURCHASE PROPERTY:

In February 2016, the City signed two land purchase option agreements with the following terms:

*Irish Farms (owner)* - This is 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).

*Markley Family (owner)* - This is a three-year option expiring March 1, 2019 for the purchase of approximately fifty (50) acres. The option does not require the City to make any payment to hold the option on the property. The purchase price per acre is \$14,000.

NOTE 16 - SUBSEQUENT EVENT:

In July 2016, the City signed a five-year agreement for the use of pipeline inspection cameras in the amount of \$102,188. Annual payments are due in the amount of \$22,581 including interest of 5.13%.

**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, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 1,060,000	\$ 1,065,820	\$ 1,066,402	\$ 582
Licenses and permits	45,000	45,000	46,341	1,341
Intergovernmental -				
Federal/State/Local	428,000	566,300	644,952	78,652
Charges for services	19,800	20,800	21,049	249
Fines and forfeits	8,300	7,000	7,067	67
Interest and rents	29,200	40,500	40,641	141
Other	-	19,600	19,223	( 377)
Total Revenues	<u>1,590,300</u>	<u>1,765,020</u>	<u>1,845,675</u>	<u>80,655</u>
<b>Expenditures:</b>				
General Government -				
Legislative	10,850	14,010	13,989	21
City Manager	133,260	140,325	138,427	1,898
Elections	9,750	6,975	6,644	331
Assessor	25,950	27,540	28,381	( 841)
City Clerk	124,650	132,300	133,314	( 1,014)
Treasurer	115,265	116,565	116,744	( 179)
General Administration	253,750	527,200	517,973	9,227
	<u>673,475</u>	<u>964,915</u>	<u>955,472</u>	<u>9,443</u>
Less: Reimbursement from other funds	( 436,000)	( 436,000)	( 436,000)	-
Total General Government	<u>237,475</u>	<u>528,915</u>	<u>519,472</u>	<u>9,443</u>
Public Safety -				
Police Department	647,325	636,625	613,949	22,676
Fire Department	102,000	104,500	101,826	2,674
	<u>749,325</u>	<u>741,125</u>	<u>715,775</u>	<u>25,350</u>
Public Works -				
Director of Public Works	92,700	96,000	94,568	1,432
Department of Public Works	368,700	356,200	355,415	785
	<u>461,400</u>	<u>452,200</u>	<u>449,983</u>	<u>2,217</u>
Recreation and Cultural-				
Parks and Recreation	71,325	143,350	141,778	1,572
Community and Economic Development -				
Planning	10,855	10,855	10,194	661
Debt Service -				
Principal	37,225	62,225	62,232	( 7)
Interest	7,300	9,300	9,308	( 8)
	<u>44,525</u>	<u>71,525</u>	<u>71,540</u>	<u>( 15)</u>
Total Expenditures	<u>1,574,905</u>	<u>1,947,970</u>	<u>1,908,742</u>	<u>39,228</u>
Revenues over (under) expenditures	<u>15,395</u>	<u>( 182,950)</u>	<u>( 63,067)</u>	<u>119,883</u>

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Other Financing Sources (Uses):</b>				
Note proceeds	\$ -	\$ 150,000	\$ 150,000	\$ -
Transfers in	-	68,350	68,351	1
Transfers out	( 39,050)	( 39,050)	( 39,036)	14
Total Other Financing Sources (Uses)	<u>( 39,050)</u>	<u>179,300</u>	<u>179,315</u>	<u>15</u>
Net change in Fund Balance	( 23,655)	( 3,650)	116,248	119,898
Fund Balance at beginning of year	<u>592,624</u>	<u>592,624</u>	<u>592,624</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 568,969</u>	<u>\$ 588,974</u>	<u>\$ 708,872</u>	<u>\$ 119,898</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, 2016**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental	\$ 165,500	\$ 176,710	\$ 187,570	\$ 10,860
<b>Expenditures:</b>				
Public Works -				
Administration	15,200	15,200	15,135	65
Construction	69,175	104,050	48,378	55,672
Maintenance -				
Preservation	27,425	51,610	53,063	( 1,453)
Winter maintenance	43,700	44,225	40,903	3,322
Total Expenditures	155,500	215,085	157,479	57,606
Revenues over (under) expenditures	10,000	( 38,375)	30,091	68,466
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	48,375	48,378	3
Transfers out	( 10,000)	( 10,000)	( 10,000)	-
Total Other Financing Sources (Uses)	( 10,000)	38,375	38,378	3
Net change in Fund Balance	-	-	68,469	68,469
Fund Balance at beginning of year	118,521	118,521	118,521	-
Fund Balance at end of year	\$ 118,521	\$ 118,521	\$ 186,990	\$ 68,469

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  
STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 120,500	\$ 120,500	\$ 119,796	\$( 704)
Interest	-	-	387	387
Total Revenues	<u>120,500</u>	<u>120,500</u>	<u>120,183</u>	<u>( 317)</u>
<b>Expenditures:</b>				
Public Works - Maintenance	<u>120,500</u>	<u>262,025</u>	<u>25,801</u>	<u>236,224</u>
Revenues over (under) expenditures	<u>-</u>	<u>( 141,525)</u>	<u>94,382</u>	<u>235,907</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	200,000	200,000	-
Transfers out	-	( 58,475)	( 58,468)	7
Total Other Financing Sources (Uses)	<u>-</u>	<u>141,525</u>	<u>141,532</u>	<u>7</u>
Net change in Fund Balance	-	-	235,914	235,914
Fund Balance at beginning of year	<u>124,912</u>	<u>124,912</u>	<u>124,912</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 124,912</u>	<u>\$ 124,912</u>	<u>\$ 360,826</u>	<u>\$ 235,914</u>

**CITY OF DURAND, MICHIGAN**

**EMPLOYEES RETIREMENT SYSTEM**

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

**LAST TEN FISCAL YEARS**

**(PLAN YEAR)**

	Year Ended December 31,		
	2015	2014	2013-2006*
<b>Total Pension Liability</b>			
Service Cost	\$ 62,727	\$ 57,941	\$ -
Interest	410,095	406,693	-
Differences between expected and actual experience	90,182	-	-
Changes in assumptions	281,396	-	-
Benefit payments, including refunds	( 277,228)	( 263,680)	-
Other charges	12,815	-	-
	<u>579,987</u>	<u>200,954</u>	<u>-</u>
Change in total pension liability	579,987	200,954	-
Total pension liability, beginning of year	<u>5,233,435</u>	<u>5,032,481</u>	<u>-</u>
Total pension liability, end of year	<u>\$ 5,813,422</u>	<u>\$ 5,233,435</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 116,654	\$ 144,260	\$ -
Net investment income	( 56,167)	235,100	-
Benefit payments, including refunds	( 277,228)	( 263,680)	-
Administrative expenses	( 8,329)	( 8,648)	-
	<u>( 225,070)</u>	<u>107,032</u>	<u>-</u>
Net change in plan fiduciary net position	( 225,070)	107,032	-
Plan fiduciary net position, beginning of year	<u>3,862,429</u>	<u>3,755,397</u>	<u>-</u>
Plan fiduciary net position, end of year	<u>\$ 3,637,359</u>	<u>\$ 3,862,429</u>	<u>\$ -</u>
<b>City's Net Pension Liability - Ending</b>	<u>\$ 2,176,063</u>	<u>\$ 1,371,006</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	62.57%	73.80%	0.00%
<b>Covered Employee Payroll</b>	\$ 766,312	\$ 709,585	\$ -
<b>City's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	284.0%	193.2%	0.00%

\* GASB No. 68 was implemented for fiscal year ended June 30, 2015. The City did not elect to retroactively implement.





## **SUPPLEMENTARY INFORMATION**

**CITY OF DURAND, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	Special Revenue Funds		
	Local Street	Building Inspection	Ambulance
<b>Assets:</b>			
Cash and cash equivalents	\$ 113,648	\$ 44,736	\$ 6,884
Receivables - accounts and interest	-	-	10,348
Due from other governmental units	32,495	-	-
Inventory	1,338	-	-
Prepays and deposits	-	-	433
	<u>147,481</u>	<u>44,736</u>	<u>17,665</u>
Total Assets	<u>\$ 147,481</u>	<u>\$ 44,736</u>	<u>\$ 17,665</u>
<b>Liabilities:</b>			
Accounts payable	\$ 1,339	\$ 1,690	\$ -
Accrued liabilities	-	911	-
Total Liabilities	<u>1,339</u>	<u>2,601</u>	<u>-</u>
<b>Deferred Inflows of Resources:</b>			
Unavailable revenue	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>			
Nonspendable	1,338	-	433
Restricted	144,804	42,135	17,232
Committed	-	-	-
Total Fund Balances	<u>146,142</u>	<u>42,135</u>	<u>17,665</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 147,481</u>	<u>\$ 44,736</u>	<u>\$ 17,665</u>

<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	
<u>2012 Water Bond Debt</u>	<u>Sidewalks &amp; Curbs</u>	<u>Total</u>
\$ 23,621	\$ 28,416	\$ 217,305
-	2,219	12,567
-	-	32,495
-	-	1,338
-	-	433
<u>\$ 23,621</u>	<u>\$ 30,635</u>	<u>\$ 264,138</u>
\$ -	\$ -	\$ 3,029
-	-	911
<u>-</u>	<u>-</u>	<u>3,940</u>
-	2,219	2,219
-	-	1,771
23,621	-	227,792
-	28,416	28,416
<u>23,621</u>	<u>28,416</u>	<u>257,979</u>
<u>\$ 23,621</u>	<u>\$ 30,635</u>	<u>\$ 264,138</u>

**CITY OF DURAND, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds		
	Local Street	Building Inspection	Ambulance
<b>Revenues:</b>			
Taxes	\$ -	\$ -	\$ 70,421
Licenses and permits	-	29,987	-
Intergovernmental	117,182	-	-
Charges for services	-	14,275	-
Interest	-	-	-
Special assessment	-	-	-
Total Revenues	117,182	44,262	70,421
<b>Expenditures:</b>			
Current -			
Public Safety	-	32,901	-
Public Works	102,560	-	-
Health and Welfare	-	-	64,481
Debt Service -			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	102,560	32,901	64,481
Revenues over (under) expenditures	14,622	11,361	5,940
<b>Other Financing Sources:</b>			
Transfers in	20,090	-	-
Net change in Fund Balance	34,712	11,361	5,940
Fund Balances at beginning of year	111,430	30,774	11,725
Fund Balances at end of year	\$ 146,142	\$ 42,135	\$ 17,665

<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	
<u>2012 Water Bond Debt</u>	<u>Sidewalks &amp; Curbs</u>	<u>Total</u>
\$ 251,765	\$ -	\$ 322,186
-	19	30,006
-	-	117,182
-	-	14,275
79	-	79
-	2,209	2,209
<u>251,844</u>	<u>2,228</u>	<u>485,937</u>
-	-	32,901
-	24	102,584
-	-	64,481
232,000	-	232,000
20,229	-	20,229
<u>252,229</u>	<u>24</u>	<u>452,195</u>
( 385)	2,204	33,742
-	6,000	26,090
( 385)	8,204	59,832
<u>24,006</u>	<u>20,212</u>	<u>198,147</u>
<u>\$ 23,621</u>	<u>\$ 28,416</u>	<u>\$ 257,979</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, 2016**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	(Negative)
<b>LOCAL STREET FUND</b>				
<b>Revenues:</b>				
Intergovernmental	\$ 79,481	\$ 111,036	\$ 117,182	\$ 6,146
<b>Expenditures:</b>				
Public Works -				
Administration	6,200	6,200	6,149	51
Preservation	60,000	100,101	72,614	27,487
Winter Maintenance	35,550	24,835	23,797	1,038
Total Expenditures	101,750	131,136	102,560	28,576
Revenues over (under) expenditures	( 22,269)	( 20,100)	14,622	34,722
<b>Other Financing Sources:</b>				
Transfers in	10,000	20,100	20,090	( 10)
Net change in Fund Balance	( 12,269)	-	34,712	34,712
Fund Balance at beginning of year	111,430	111,430	111,430	-
Fund Balance at end of year	\$ 99,161	\$ 111,430	\$ 146,142	\$ 34,712
<b>BUILDING INSPECTION FUND</b>				
<b>Revenues:</b>				
Licenses and permits	\$ 18,000	\$ 30,050	\$ 29,987	( 63)
Charges for services	-	11,250	14,275	3,025
Total Revenues	18,000	41,300	44,262	2,962
<b>Expenditures:</b>				
Public Safety -				
Administration	2,000	2,000	2,000	-
Building inspections	18,000	39,300	30,901	8,399
Total Expenditures	20,000	41,300	32,901	8,399
Net change in Fund Balance	( 2,000)	-	11,361	11,361
Fund Balance at beginning of year	30,774	30,774	30,774	-
Fund Balance at end of year	\$ 28,774	\$ 30,774	\$ 42,135	\$ 11,361

Continued

**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, 2016**

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	(Negative)
<b>AMBULANCE FUND</b>				
<b>Revenues:</b>				
Taxes	\$ 71,000	\$ 71,000	\$ 70,421	\$( 579)
Other	7,500	-	-	-
Total Revenues	78,500	71,000	70,421	( 579)
<b>Expenditures:</b>				
Health and Welfare -				
Administration	2,000	2,000	2,000	-
Contracted services	76,500	69,000	62,481	6,519
Total Expenditures	78,500	71,000	64,481	6,519
Net change in Fund Balance	-	-	5,940	5,940
Fund Balance at beginning of year	11,725	11,725	11,725	-
Fund Balance at end of year	\$ 11,725	\$ 11,725	\$ 17,665	\$ 5,940

Concluded

**CITY OF DURAND, MICHIGAN**

**COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
JUNE 30, 2016**

	Employee Benefit	Equipment Revolving	Total
<b>Assets:</b>			
Current Assets:			
Cash and cash equivalents	\$ 51,847	\$ 425,659	\$ 477,506
Accounts and interest receivable	7,713	-	7,713
Inventory	-	2,321	2,321
Prepaid expenses	9,232	15,458	24,690
Total Current Assets	68,792	443,438	512,230
Capital Assets:			
Property, plant and equipment	-	2,817,047	2,817,047
Less - accumulated depreciation	-	( 1,865,878)	( 1,865,878)
Total Capital Assets, Net	-	951,169	951,169
Total Assets	68,792	1,394,607	1,463,399
<b>Liabilities:</b>			
Current Liabilities:			
Accounts payable	12,669	791	13,460
Accrued expenses	8,111	341	8,452
Interest payable	-	10,600	10,600
Bonds/Notes payable (current portion)	-	65,134	65,134
Total Current Liabilities	20,780	76,866	97,646
Long-Term Liabilities:			
Accrued vacation and sick	41,096	-	41,096
Notes payable (net of current portion)	-	445,076	445,076
Total Long-Term Liabilities	41,096	445,076	486,172
Total Liabilities	61,876	521,942	583,818
<b>Net Position:</b>			
Net investment in capital assets	-	440,959	440,959
Unrestricted	6,916	431,706	438,622
Total Net Position	\$ 6,916	\$ 872,665	\$ 879,581



**CITY OF DURAND, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Employee Benefit	Equipment Revolving	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 469,493	\$ 404,383	\$ 873,876
Other	26,335	898	27,233
Total Operating Revenues	495,828	405,281	901,109
<b>Operating Expenses:</b>			
Personal services	494,355	51,970	546,325
Administrative expenses	-	40,000	40,000
Supplies and postage	-	36,177	36,177
Other services	-	112,511	112,511
Depreciation	-	133,673	133,673
Total Operating Expenses	494,355	374,331	868,686
Operating income	1,473	30,950	32,423
<b>Non-Operating (Expenses):</b>			
Gain on sale of assets	-	75,346	75,346
Interest earned	-	151	151
Interest expense	-	( 12,824)	( 12,824)
Total Non-Operating Revenues (Expenses)	-	62,673	62,673
Net income before transfers	1,473	93,623	95,096
<b>Other Financing Sources:</b>			
Transfers in	-	33,036	33,036
Change in Net Position	1,473	126,659	128,132
Net Position at beginning of year	5,443	746,006	751,449
Net Position at end of year	\$ 6,916	\$ 872,665	\$ 879,581

**CITY OF DURAND, MICHIGAN**

**COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Employee Benefit	Equipment Revolving	Total
<b>Cash Flows From Operating Activities:</b>			
Cash receipts from customers	\$ 24,862	\$ 898	\$ 25,760
Cash receipts from interfund services	469,493	364,383	833,876
Cash payments to suppliers	( 485,200)	( 150,199)	( 635,399)
Cash payments to employees	( 1,357)	( 53,485)	( 54,842)
Net Cash Provided by Operating Activities	7,798	161,597	169,395
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Bond/Note proceeds	-	328,548	328,548
Bond/Note payments	-	( 27,697)	( 27,697)
Transfers	-	33,036	33,036
Interest paid on long term debt	-	( 5,338)	( 5,338)
Proceeds from sale of capital assets	-	82,218	82,218
Acquisition and construction of capital assets	-	( 502,087)	( 502,087)
Net Cash Used in Capital and Related Financing Activities	-	( 91,320)	( 91,320)
<b>Cash Flows From Investing Activities:</b>			
Interest earned	-	151	151
Net Increase in Cash and Cash Equivalents	7,798	70,428	78,226
Cash and Cash Equivalents at beginning of year	44,049	355,231	399,280
Cash and Cash Equivalents at end of year	\$ 51,847	\$ 425,659	\$ 477,506
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income	\$ 1,473	\$ 30,950	\$ 32,423
Adjustments to reconcile operating income to net cash provided by operating activities -			
Depreciation	-	133,673	133,673
Change in assets and liabilities:			
Receivable	( 1,473)	-	( 1,473)
Prepays	( 8,678)	( 462)	( 9,140)
Inventory	-	76	76
Accounts payable/accrued expenses	16,476	( 2,640)	13,836
Net Cash Provided by Operating Activities	\$ 7,798	\$ 161,597	\$ 169,395

**COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY**

**CITY OF DURAND, MICHIGAN**

**BALANCE SHEET/STATEMENT OF NET POSITION  
DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2016**

	Operating Fund	GASB 34 Adjustments	Statement of Net Position
<b>Assets:</b>			
Cash and cash equivalents	\$ 127,850	\$ -	\$ 127,850
Prepays	133	-	133
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	-	60,000	60,000
Assets being depreciated	-	309,140	309,140
Total Assets	\$ 127,983	\$ 369,140	\$ 497,123
 <b>Liabilities:</b>			
Accounts payable	\$ 556	\$ -	\$ 556
Accrued interest	-	5,103	5,103
Non-current liabilities -			
Due within one year	-	45,000	45,000
Due in more than one year	-	705,000	705,000
Total Liabilities	556	755,103	755,659
 <b>Fund Balance:</b>			
Nonspendable	133	( 133)	-
Restricted - Wednesday Night Live	6,104	( 6,104)	-
Assigned	33,743	( 33,743)	-
Unassigned	87,447	( 87,447)	-
Total Liabilities and Fund Balance	\$ 127,983	( 127,427)	-
 <b>Net Position:</b>			
Net investment in capital assets		219,140	219,140
Restricted		6,104	6,104
Unrestricted (deficit)		( 483,780)	( 483,780)
Total Net Position		\$( 258,536)	\$( 258,536)

**CITY OF DURAND, MICHIGAN**

**RECONCILIATION OF THE BALANCE SHEET FOR  
GOVERNMENTAL (OPERATING) FUND TO THE STATEMENT OF NET POSITION -  
DOWNTOWN DEVELOPMENT AUTHORITY  
JUNE 30, 2016**

Fund Balances - total governmental funds	\$	127,427
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	(	209,897)
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	(	750,000)
Accrued interest payable	(	<u>5,103</u> )
Net Position of Downtown Development Authority	\$	<u><u>( 258,536)</u></u>

**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, 2016**

	Operating Fund	GASB 34 Adjustments	Statement of Activities
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Revenues:</b>			
Taxes	\$ 74,675	\$ -	\$ 74,675
Intergovernmental - Federal/State	32,500	-	32,500
Other	6,650	-	6,650
	<u>113,825</u>	<u>-</u>	<u>113,825</u>
<b>Expenditures/Expenses:</b>			
Community and Economic Development	33,370	15,067	48,437
Capital Outlay	150,000	( 150,000)	-
Debt Service - Principal	45,000	( 45,000)	-
Interest	24,956	416	25,372
	<u>253,326</u>	<u>( 179,517)</u>	<u>73,809</u>
Revenues over (under) expenditures/expenses	( 139,501)	179,517	40,016
<b>Other Financing Sources:</b>			
Note proceeds	150,000	( 150,000)	-
Net change in Fund Balance/Net Position	10,499	29,517	40,016
Fund Balance/Net Position at beginning of year	116,928	( 415,480)	( 298,552)
Fund Balance/Net Position at end of year	<u>\$ 127,427</u>	<u>\$( 385,963)</u>	<u>\$( 258,536)</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, 2016**

Net change in fund balances - governmental funds	\$ 10,499
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.	
Capital outlay	150,000
Depreciation expense	( 15,067)
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	45,000
Note proceeds	( 150,000)
Increase in accrued interest	( 416)
Change in net position of Downtown Development Authority activities	<u>\$ 40,016</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, 2016**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 74,000	\$ 74,000	\$ 74,675	\$ 675
Intergovernmental	-	32,500	32,500	-
Other	5,000	6,650	6,650	-
Total Revenues	<u>79,000</u>	<u>113,150</u>	<u>113,825</u>	<u>675</u>
<b>Expenditures:</b>				
Current -				
Community and Economic Development	53,052	37,587	33,370	4,217
Capital Outlay	-	153,000	150,000	3,000
Debt Service-				
Principal	25,000	45,000	45,000	-
Interest	27,563	27,563	24,956	2,607
Total Expenditures	<u>105,615</u>	<u>263,150</u>	<u>253,326</u>	<u>9,824</u>
Revenues under expenditures	( 26,615)	( 150,000)	( 139,501)	10,499
<b>Other Financing Sources:</b>				
Note proceeds	<u>-</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Net Change in Fund Balance	( 26,615)	-	10,499	10,499
Fund Balance at beginning of year	<u>116,928</u>	<u>116,928</u>	<u>116,928</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 90,313</u>	<u>\$ 116,928</u>	<u>\$ 127,427</u>	<u>\$ 10,499</u>

**CITY OF DURAND**  
**Durand, Michigan**

**SUPPLEMENTARY INFORMATION TO  
FINANCIAL STATEMENTS**

**(FEDERAL AWARDS)**

**FOR THE YEAR ENDED JUNE 30, 2016**





# CITY OF DURAND

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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Durand (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 21, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

  
Certified Public Accountants

November 21, 2016

**CITY OF DURAND, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Expenditures Passed to Subrecipients
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>				
<u>Direct Program:</u>				
Water and Waste Program Cluster - Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 5,523,215	\$ -
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>5,523,215</b>	<b>-</b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>				
<u>Passed Through the Michigan Strategic Fund:</u>				
Community Development Block Grants - West Parking Lot and Pathway Improvements Project	14.228	MSC 213008-DIG	290,303	-
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<b>290,303</b>	<b>-</b>
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 5,813,518</b>	<b>\$ -</b>

See Notes to Schedule of Expenditures of Federal Awards

**CITY OF DURAND**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Durand (the "City") for the year ended June 30, 2016. Expenditures reported on the Schedule are reported on the same basis of accounting, the *modified accrual basis*, as the financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). In addition, expenditures reported on the Schedule are recognized following the cost principles contained in Subpart E of the Uniform Guidance or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The cost principles followed for expenditures presented on this Schedule are based on whether incremental funding of existing federal awards was provided after December 26, 2014 and for all new federal awards expended after this date (the effective date of the Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

For purposes of charging indirect costs to federal awards, the City has not elected to use the 10% de minimis cost rate.

Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

**NOTE 2 - LOANS:**

Funding has been provided for water and sewer improvements by the United States Department of Agriculture Rural Development. Information for the project at and for the year ended June 30, 2016 is as follows:

Authorized	<u>\$ 9,690,000</u>
Balance at June 30, 2016	<u>\$ 6,619,558</u>
2015 Activity -	
Proceeds	\$ 5,523,215
Expenditures -	
Capital Outlay	5,523,215
Debt Service -	
Principal	151,991
Interest and Fiscal Charges	85,297

**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 *GOVERNMENTAL 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2016.

**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*.

We noted certain other matters that we reported to management of the City of Durand in a separate letter dated November 21, 2016.

## **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.



Certified Public Accountants

November 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Durand's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

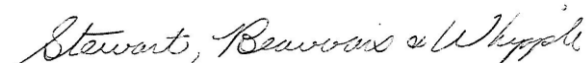
## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Durand's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

November 21, 2016



**CITY OF DURAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Section I - Summary Of Auditor's Results:**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal controls over financial reporting:  
Material weakness(es) identified? \_\_\_\_\_ yes  x  no  
Significant deficiency(ies) identified not  
considered to be material weaknesses? \_\_\_\_\_ yes  x  none reported

Noncompliance material to financial  
statements noted? \_\_\_\_\_ yes  x  no

**Federal Awards**

Internal Control over major programs:  
Material weakness(es) identified? \_\_\_\_\_ yes  x  no  
Significant deficiency(ies) identified not  
considered to be material weaknesses? \_\_\_\_\_ yes  x  none reported

Type of auditor's report issued on compliance  
for major programs: Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with 2 CFR,  
Section 200.516(a) of the Uniform Guidance? \_\_\_\_\_ yes  x  no

Identification of Major Program:

CFDA Number Name of Federal Program or Cluster

CFDA #10.760 Water and Waste Program Cluster

Dollar threshold used to distinguish  
between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  x  no

**Section II - Financial Statement Findings:**

There were no financial statement findings.

**Section III - Federal Award Findings and Questioned Costs:**

There were no federal award findings and questioned costs.

**Section IV - Prior Years' Findings and Questioned Costs:**

There were no prior years' findings and questioned costs.

**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 *GOVERNMENTAL 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, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2016.

**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.

  
Certified Public Accountants

November 21, 2016

## AUDIT COMMUNICATION LETTER

November 21, 2016

To the Honorable Mayor and  
Members of 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, 2016, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, 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 August 9, 2016. 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 fiscal 2016. 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.

Estimates for the liability for other postemployment benefits to be provided for current employees and retirees, which is based on employee information, including estimated age of retirement and life expectancy, and expected future changes in health care costs and interest rates.

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.

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

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 \$2,176,063.

The disclosure of the custodial credit risk of deposits in Note 3 to the financial statements indicates the City holds \$3,165,334 of total deposits, of which \$909,307 was covered by depository insurance, with the remaining balance of \$2,256,027 uninsured and uncollateralized.

#### *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. The attached schedule summarizes the unrecorded adjustments of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole. The following material misstatement was detected as a result of audit procedures and was corrected by management:

- To record OPEB obligation and net pension liability.

#### *Assistance with GASB No. 34 Presentation*

As a result of our assistance with the GASB No. 34 presentation, we proposed several entries, which include adjusting the net pension liability and OPEB obligation for the governmental activities to the June 30, 2016 account balances to reflect the differences between the governmental funds and the government-wide financial statements. These entries are described on pages 12 and 14 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 November 21, 2016.

*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.

In addition to the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, we noted two (2) items that, although not considered to be significant deficiencies, could improve controls, the operational efficiency, and/or compliance with laws and regulations. These items are discussed in Attachment A.

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.

*Summary of Auditor Results Related to Single Audit*

The program tested as a major program was:

CFDA# 10.760

Water and Waste Program Cluster

An unmodified opinion on compliance for the major program was issued.

**Other Matters**

We applied certain limited procedures to the management’s discussion and analysis, pension schedules, and budgeting comparison information, which are required supplementary information (RSI) that supplements 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.

*Stewart, Beauvais & Whipple*  
Certified Public Accountants



## **Attachment A**

The following items are not considered to be significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department, and/or compliance with laws and regulations:

### **MERS Hybrid Plan Documentation.**

During the audit we noted that employees hired after January 1, 2009 are part of the MERS Hybrid Program; however, all the necessary paperwork has not been filed and/or approved by MERS. Because a number of employees (10) who would qualify for the new plan have been hired since that date, it is very important that the necessary paperwork gets filed and that they be included in the annual actuarial calculation of the pension liability. Also, the City will owe contributions for these employees for 2014, 2015, and 2016.

### **Formal written procedures for administrative and financial controls for federal awards should be developed.**

As a precondition to receive federal awards, prospective recipients must have effective internal controls over the federal award. As described in 2 CFR, Part 200.303 and OMB *Compliance Supplement*, non-federal entities must have written procedures for any of the twelve (12) compliance areas, as well as major financial areas (e.g. cash disbursement, payroll, and cash receipts), that are applicable to the grants under the administration of the City. Although the City has a number of controls in place over the federal programs under their administration, it was noted that the City currently does not have formal (written) policies and procedures over each of the significant compliance and financial areas.

We recommend that the City review the requirements outlined in the reference documents cited above and develop formal written policies and procedures for compliance areas that are applicable to the federal grants received by the City.













