

CITY OF DURAND
Shiawassee County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2019



CITY OF DURAND
Shiawassee County, Michigan

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Shiawassee County, Michigan

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan (the "City"), as of and for the year ended June 30, 2019 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, 2019, the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 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, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand, Michigan's (the "City") 2019 annual report is presented in conformity with the requirements of Governmental Accounting Standards Board Statement No. 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and internal service funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Government-wide Financial Statements

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

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

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

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

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

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

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

Fund Financial Statements

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

The City has two types of funds:

Governmental Funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. For 2019, the City had 9 governmental funds.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City has combined total net position of \$13,771,845. This is an increase of \$3,617,243 from 2018. Governmental activities comprise \$6,118,460 and business-type activities make up \$7,653,385 of the total net position. In a condensed format, the table below shows net position as of June 30, 2019 and 2018.

Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Assets:				
Current assets	\$ 4,407,702	\$ 2,619,205	\$ 1,165,554	\$ 1,362,682
Restricted assets	1,576	102,406	239,744	507,615
Capital assets	<u>9,631,302</u>	<u>8,475,357</u>	<u>17,969,328</u>	<u>18,252,545</u>
Total assets	<u>14,040,580</u>	<u>11,196,968</u>	<u>19,374,626</u>	<u>20,122,842</u>
Deferred Outflows of Resources	<u>471,171</u>	<u>132,825</u>	<u>95,693</u>	<u>37,463</u>
Liabilities :				
Current liabilities	72,212	64,051	103,794	220,854
Non-current liabilities	<u>8,152,479</u>	<u>8,324,950</u>	<u>11,674,308</u>	<u>12,634,744</u>
Total liabilities	<u>8,224,691</u>	<u>8,389,001</u>	<u>11,778,102</u>	<u>12,855,598</u>
Deferred Inflows of Resources	<u>168,600</u>	<u>70,975</u>	<u>38,832</u>	<u>19,922</u>
Net Position:				
Net investment in capital assets	7,828,791	7,550,172	7,206,687	7,524,607
Restricted	1,067,180	829,192	239,744	189,000
Unrestricted (Deficit)	<u>(2,777,511)</u>	<u>(5,509,547)</u>	<u>206,954</u>	<u>(428,822)</u>
Total net position	<u>\$ 6,118,460</u>	<u>\$ 2,869,817</u>	<u>\$ 7,653,385</u>	<u>\$ 7,284,785</u>

The City's governmental activities experienced an increase in net position of \$3,248,643. The business-type activities experienced an increase in net position of \$368,600.

The following table shows the changes in net position for 2019 and 2018:

Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue				
Program Revenue -				
Charges for services	\$ 237,657	\$ 191,293	\$ 2,001,702	\$ 1,939,866
Operating grants and contributions	447,248	384,289	8,500	18,946
Capital grants and contributions	441,080	21,855	-	-
General Revenue -				
Property taxes	1,593,814	1,495,011	-	-
State-shared revenue	449,784	436,812	-	-
Local community stabilization	24,376	75,787	-	-
Franchise fees	48,355	48,483	-	-
Unrestricted investment earnings	15,214	13,766	42,074	17,533
Gain on sale of property	235,350	-	-	-
Total Revenue	<u>3,492,878</u>	<u>2,667,296</u>	<u>2,052,276</u>	<u>1,976,345</u>
Program Expenses				
General government	(266,547)	346,157	-	-
Public safety	107,900	997,430	-	-
Public works	119,010	1,208,568	-	-
Health & welfare	75,480	71,541	-	-
Recreation and culture	92,998	204,510	-	-
Community & economic development	8,285	7,800	-	-
Interest on long-term debt	107,109	21,574	-	-
Water supply system	-	-	527,884	909,100
Wastewater	-	-	937,753	1,193,269
Refuse services	-	-	218,039	214,092
Total Program Expenses	<u>244,235</u>	<u>2,857,580</u>	<u>1,683,676</u>	<u>2,316,461</u>
Increase (Decrease) in Net Position Before Transfers	3,248,643	(190,284)	368,600	(340,116)
Transfers	-	(200,000)	-	200,000
Increase (Decrease) in Net Position	3,248,643	(390,284)	368,600	(140,116)
Net Position at Beginning of Year	<u>2,869,817</u>	<u>3,260,101</u>	<u>7,284,785</u>	<u>7,424,901</u>
Net Position at End of Year	<u>\$ 6,118,460</u>	<u>\$ 2,869,817</u>	<u>\$ 7,653,385</u>	<u>\$ 7,284,785</u>

Governmental Activities

Revenues for governmental activities totaled \$3,492,878 in 2019. Of this amount, \$1,593,814 or 46% of total revenue was received from taxes, followed by state-shared revenue of \$449,784 or 13% 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 Water and Wastewater Funds had net increases in net position of \$278,041 and \$99,472, respectively. The Refuse Service Fund experienced a net decrease in net position of \$8,913.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund ended 2019 with a fund balance of \$718,402, of which \$5,170 was nonspendable, \$30,285 was restricted, \$390,695 was committed, with the remaining amount of \$292,252 unassigned. This is an increase of \$340,526 from the prior year.

The City's other major funds, the Major Street Fund, Local Street Fund, and Street Projects Fund ended 2019 with fund balances of \$528,497, \$230,950, and \$2,441,768, respectively. These were increases of \$75,862 for the Major Street Fund, \$67,576 in the Local Street Fund, and \$1,334,328 in the Street Projects Fund from the prior year.

BUDGETARY HIGHLIGHTS

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

- Other Revenue was increased from \$1,600 to \$77,670 as a result of increased contributions for the America in Bloom grant funding for the revitalization of property and rebates received from Consumers Energy by participating in the Energy Efficiency Program.
- General Administration expenditures were increased from \$289,200 to \$348,536 as a result of setting aside a contingency reserve for unforeseen items.
- Police Department expenditures were decreased from \$639,400 to \$581,835 as a result of decreased equipment usage from the Internal Service Fund.
- Department of Public Works expenditures were increased from \$314,800 to \$358,950 as a result of the completion of the 2017 Energy Conservation Project and building renovations.
- Parks and Recreation expenditures were increased from \$63,950 to \$154,760 as a result of the completion of the 2017 Energy Conservation Project.

There were two significant differences between the final budget and actual amounts. The first difference was the sale of property exceeded the budget by \$228,650 as a result of the City selling off a piece of land to a restaurant chain. The other variance was General Administration and was under budget by \$63,868, primarily because the contingency reserve was not needed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City had \$27,600,630 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2019. 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 \$2,136,150 of capital assets before taking into account depreciation and deletions. The City added \$1,703,784 to the governmental activities. Major additions included a new Ford F-250 utility truck, infrastructure improvements, and finishing the 2017 Energy Conservation Project. The business-type activities added \$432,366, mainly due to finishing the 2017 Energy Conservation Project and a new aeration system.

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

Long-term Liabilities

At June 30, 2019, the City had \$14,844,158 in long-term liabilities, compared to \$13,456,796 at June 30, 2018. The City added \$2,400,000 of Street Improvement Bonds and made scheduled payments on long-term liabilities.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For fiscal 2019-20, the City Council adopted a General Fund budget with estimated revenues and expenditures of \$2,241,400.

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, 2019

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit DDA
Assets:				
Cash and cash equivalents	\$ 4,071,793	\$ 763,918	\$ 4,835,711	\$ 79,594
Receivables	273,533	358,416	631,949	-
Prepaid expenses	56,229	450	56,679	-
Inventory	6,147	42,770	48,917	-
Restricted assets				
Cash and cash equivalents	1,576	239,744	241,320	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,879,494	183,083	2,062,577	60,000
Assets being depreciated	7,751,808	17,786,245	25,538,053	253,151
Total Assets	<u>14,040,580</u>	<u>19,374,626</u>	<u>33,415,206</u>	<u>392,745</u>
Deferred Outflows of Resources:				
Related to pension plan	371,249	70,713	441,962	-
Related to OPEB plan	99,922	24,980	124,902	-
Total Deferred Outflows of Resources	<u>471,171</u>	<u>95,693</u>	<u>566,864</u>	<u>-</u>
Liabilities:				
Payables and accrued liabilities	48,235	38,230	86,465	660
Accrued interest	23,977	43,264	67,241	4,227
Deposits	-	22,300	22,300	-
Non-current liabilities				
Net pension liability	2,080,432	396,272	2,476,704	-
Net OPEB liability	2,004,741	501,184	2,505,925	-
Due within one year	548,986	317,979	866,965	55,000
Due in more than one year	3,518,320	10,458,873	13,977,193	545,000
Total Liabilities	<u>8,224,691</u>	<u>11,778,102</u>	<u>20,002,793</u>	<u>604,887</u>
Deferred Inflows of Resources:				
Related to pension plan	55,765	10,622	66,387	-
Related to OPEB plan	112,835	28,210	141,045	-
Total Deferred Inflows of Resources	<u>168,600</u>	<u>38,832</u>	<u>207,432</u>	<u>-</u>
Net Position:				
Net investment in capital assets	7,828,791	7,206,687	15,035,478	223,151
Restricted -				
Debt Service	6,863	199,244	206,107	-
Capital Improvements	-	40,500	40,500	-
Streets	985,795	-	985,795	-
Public Safety	45,813	-	45,813	-
Other	28,709	-	28,709	8,921
Unrestricted (deficit)	<u>(2,777,511)</u>	<u>206,954</u>	<u>(2,570,557)</u>	<u>(444,214)</u>
Total Net Position	<u>\$ 6,118,460</u>	<u>\$ 7,653,385</u>	<u>\$ 13,771,845</u>	<u>\$(212,142)</u>

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

CITY OF DURAND, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$(266,547)	\$ 136,202	\$ 29,364	\$ 8,858
Public Safety	107,900	85,038	4,703	3,480
Public Works	119,010	2,053	413,181	423,742
Health and Welfare	75,480	5,833	-	-
Recreation and Cultural	92,998	8,531	-	5,000
Community and Economic Development	8,285	-	-	-
Interest on Long-term Debt	107,109	-	-	-
Total Governmental Activities	<u>244,235</u>	<u>237,657</u>	<u>447,248</u>	<u>441,080</u>
Business-type Activities:				
Water Supply System	527,884	784,928	-	-
Wastewater	937,753	1,007,648	8,500	-
Refuse Services	218,039	209,126	-	-
Total Business-type Activities	<u>1,683,676</u>	<u>2,001,702</u>	<u>8,500</u>	<u>-</u>
Total Primary Government	<u>\$ 1,927,911</u>	<u>\$ 2,239,359</u>	<u>\$ 455,748</u>	<u>\$ 441,080</u>
Component Unit				
Downtown Development Authority	<u>\$ 55,524</u>	<u>\$ 7,550</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
 Property taxes
 Grants and contributions not restricted to specific programs -
 State-shared revenue
 Local community stabilization
 Franchise fees
 Unrestricted investment income
 Gain of sale of property
 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)
\$ 440,971	\$ -	\$ 440,971	\$ -
(14,679)	-	(14,679)	-
719,966	-	719,966	-
(69,647)	-	(69,647)	-
(79,467)	-	(79,467)	-
(8,285)	-	(8,285)	-
(107,109)	-	(107,109)	-
<u>881,750</u>	<u>-</u>	<u>881,750</u>	<u>-</u>
-	257,044	257,044	-
-	78,395	78,395	-
-	(8,913)	(8,913)	-
<u>-</u>	<u>326,526</u>	<u>326,526</u>	<u>-</u>
<u>881,750</u>	<u>326,526</u>	<u>1,208,276</u>	<u>-</u>
-	-	-	(47,974)
1,593,814	-	1,593,814	74,325
449,784	-	449,784	-
24,376	-	24,376	7,453
48,355	-	48,355	-
15,214	42,074	57,288	-
235,350	-	235,350	-
<u>2,366,893</u>	<u>42,074</u>	<u>2,408,967</u>	<u>81,778</u>
3,248,643	368,600	3,617,243	33,804
<u>2,869,817</u>	<u>7,284,785</u>	<u>10,154,602</u>	<u>(245,946)</u>
<u>\$ 6,118,460</u>	<u>\$ 7,653,385</u>	<u>\$ 13,771,845</u>	<u>\$(212,142)</u>

CITY OF DURAND, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General	Major Street	Local Street	Street Projects
Assets:				
Cash and cash equivalents	\$ 554,467	\$ 487,448	\$ 218,039	\$ 2,441,768
Accounts and interest receivable	5,708	-	-	-
Due from other governmental units	184,922	45,122	17,357	-
Prepays and deposits	5,170	-	-	-
Inventory	-	2,028	2,028	-
Restricted assets -				
Cash and cash equivalents	1,576	-	-	-
Total Assets	\$ 751,843	\$ 534,598	\$ 237,424	\$ 2,441,768
 Liabilities:				
Accounts payable	\$ 16,544	\$ 6,040	\$ 6,042	\$ -
Accrued liabilities	16,897	61	432	-
Total Liabilities	33,441	6,101	6,474	-
 Deferred Inflows of Resources:				
Unavailable revenue	-	-	-	-
 Fund Balances:				
Nonspendable	5,170	2,028	2,028	-
Restricted	30,285	526,469	228,922	2,441,768
Committed	390,695	-	-	-
Unassigned	292,252	-	-	-
Total Fund Balances	718,402	528,497	230,950	2,441,768
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 751,843	\$ 534,598	\$ 237,424	\$ 2,441,768

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

Other Governmental Funds	Total Governmental Funds
\$ 71,448	\$ 3,773,170
14,900	20,608
-	247,401
-	5,170
-	4,056
-	1,576
\$ 86,348	\$ 4,051,981

\$ 631	\$ 29,257
-	17,390
631	46,647
1,673	1,673

-	9,226
52,676	3,280,120
31,368	422,063
-	292,252
84,044	4,003,661
\$ 86,348	\$ 4,051,981

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Fund Balances - total governmental funds		\$ 4,003,661
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		13,095,467
Accumulated depreciation	(	4,378,189)
Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.		
Special assessments		1,673
Internal service funds are used by management to charge costs of the City's equipment revolving and employee benefit activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		777,337
Certain pension/OPEB contributions and changes in pension/OPEB plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position, but are reported as expenditures in the governmental funds.		
Deferred outflows of resources	\$ 471,171	
Deferred inflows of resources	(168,600)	302,571
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the governmental funds.		
Bonds/notes/installment purchase payable		(3,581,692)
Net pension liability		(2,080,432)
Net OPEB liability		(2,004,741)
Accrued interest		(17,195)
Net Position of governmental activities		<u>\$ 6,118,460</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, 2019**

	General	Major Street	Local Street	Street Projects
Revenues:				
Taxes	\$ 1,082,296	\$ -	\$ -	\$ -
Licenses and permits	48,355	-	-	-
Intergovernmental	487,167	697,755	139,168	1,964
Charges for services	56,445	-	-	-
Fines and forfeits	7,354	-	-	-
Interest and rent	40,470	1,220	-	2,062
Special assessments	-	-	-	-
Other	78,216	-	-	-
Total Revenues	1,800,303	698,975	139,168	4,026
Expenditures:				
General Government	259,227	-	-	-
Public Safety	698,396	-	-	-
Public Works	474,424	946,573	714,462	-
Health and Welfare	-	-	-	-
Recreation and Cultural	150,355	-	-	-
Community and Economic Development	8,285	-	-	-
Debt Service - Principal	83,696	-	-	-
Interest and issuance cost	18,344	-	-	47,368
Total Expenditures	1,692,727	946,573	714,462	47,368
Revenues over (under) expenditures	107,576	(247,598)	(575,294)	(43,342)
Other Financing Sources (Uses):				
Sale of property	235,350	-	-	-
Bond proceeds	-	-	-	2,400,000
Transfers in from other funds	-	333,460	642,870	-
Transfers out to other funds	(2,400)	(10,000)	-	(1,022,330)
Total Other Financing Sources (Uses)	232,950	323,460	642,870	1,377,670
Net change in Fund Balance	340,526	75,862	67,576	1,334,328
Fund Balances at beginning of year	377,876	452,635	163,374	1,107,440
Fund Balances at end of year	\$ 718,402	\$ 528,497	\$ 230,950	\$ 2,441,768

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

Other Governmental Funds	Total Governmental Funds
\$ 554,629	\$ 1,636,925
30,815	79,170
5,865	1,331,919
6,305	62,750
9,250	16,604
1,999	45,751
2,033	2,033
5,833	84,049
<u>616,729</u>	<u>3,259,201</u>
-	259,227
45,560	743,956
-	2,135,459
76,906	76,906
-	150,355
-	8,285
551,000	634,696
33,581	99,293
<u>707,047</u>	<u>4,108,177</u>
(90,318)	(848,976)
-	235,350
-	2,400,000
56,400	1,032,730
-	(1,034,730)
<u>56,400</u>	<u>2,633,350</u>
(33,918)	1,784,374
<u>117,962</u>	<u>2,219,287</u>
<u>\$ 84,044</u>	<u>\$ 4,003,661</u>

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Net change in fund balances - total governmental funds	\$	1,784,374
<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		1,657,215
Depreciation expense	(	388,106)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Special assessments	(	1,673)
<p>The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
Principal payments on long-term liabilities		634,696
Increase in accrued interest	(	7,816)
Bond proceeds	(	2,400,000)
<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	(	479,272)
Change in pension/OPEB expense related to deferred items related to the pension/OPEB plans		240,721
Decrease in net OPEB liability		2,355,362
<p>Internal service funds are used by management to charge costs of the City's equipment revolving and employee benefit activities. The net revenues (expenses) attributable to those funds is reported with governmental activities in the statement of net position.</p>		
	(	146,858)
Change in net position of governmental activities	<u>\$</u>	<u>3,248,643</u>

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

CITY OF DURAND, MICHIGAN

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

	Business-type Activities - Enterprise Funds				Governmental
	Water	Wastewater	Refuse Service	Total	Activities
					Internal Service Funds
Assets:					
Current Assets -					
Cash and cash equivalents	\$ 254,801	\$ 493,962	\$ 15,155	\$ 763,918	\$ 298,623
Receivables	148,823	199,807	9,786	358,416	5,524
Inventory	41,467	1,303	-	42,770	2,091
Prepaid expenses	150	150	150	450	51,059
Total Current Assets	<u>445,241</u>	<u>695,222</u>	<u>25,091</u>	<u>1,165,554</u>	<u>357,297</u>
Restricted Assets -					
Cash and cash equivalents	<u>84,869</u>	<u>154,875</u>	<u>-</u>	<u>239,744</u>	<u>-</u>
Capital Assets -					
Property, plant, and equipment	9,741,874	18,340,252	-	28,082,126	3,076,442
Less - accumulated depreciation	<u>(3,459,439)</u>	<u>(6,653,359)</u>	<u>-</u>	<u>(10,112,798)</u>	<u>(2,162,418)</u>
Total Capital Assets, Net	<u>6,282,435</u>	<u>11,686,893</u>	<u>-</u>	<u>17,969,328</u>	<u>914,024</u>
Total Assets	<u>6,812,545</u>	<u>12,536,990</u>	<u>25,091</u>	<u>19,374,626</u>	<u>1,271,321</u>
Deferred Outflows of Resources:					
Related to pension plan	35,357	35,356	-	70,713	-
Related to OPEB plan	<u>12,490</u>	<u>12,490</u>	<u>-</u>	<u>24,980</u>	<u>-</u>
	<u>47,847</u>	<u>47,846</u>	<u>-</u>	<u>95,693</u>	<u>-</u>
Liabilities:					
Current Liabilities -					
Accounts payable	3,358	28,008	-	31,366	598
Accrued expenses	1,322	5,542	-	6,864	990
Accrued interest	16,665	26,599	-	43,264	6,782
Customer deposits	22,300	-	-	22,300	-
Capital Lease payable (current portion)	37,581	49,744	-	87,325	-
Bonds/Notes payable (current portion)	45,000	185,654	-	230,654	196,585
Total Current Liabilities	<u>126,226</u>	<u>295,547</u>	<u>-</u>	<u>421,773</u>	<u>204,955</u>
Long-term Liabilities -					
Accrued vacation and sick	3,106	3,105	-	6,211	49,375
Net pension liability	198,136	198,136	-	396,272	-
Net OPEB liability	250,592	250,592	-	501,184	-
Capital Lease payable (net of current portion)	650,618	529,736	-	1,180,354	-
Bonds/Notes payable (net of current portion)	<u>2,473,000</u>	<u>6,799,308</u>	<u>-</u>	<u>9,272,308</u>	<u>239,654</u>
Total Long-term Liabilities	<u>3,575,452</u>	<u>7,780,877</u>	<u>-</u>	<u>11,356,329</u>	<u>289,029</u>
Total Liabilities	<u>3,701,678</u>	<u>8,076,424</u>	<u>-</u>	<u>11,778,102</u>	<u>493,984</u>

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

CITY OF DURAND, MICHIGAN

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
Deferred Inflows of Resources:					
Related to pension plan	\$ 5,311	\$ 5,311	\$ -	\$ 10,622	\$ -
Related to OPEB plan	14,105	14,105	-	28,210	-
Total Deferred Inflows of Resources	19,416	19,416	-	38,832	-
Net Position:					
Net investment in capital assets	3,076,236	4,130,451	-	7,206,687	477,785
Restricted	84,869	154,875	-	239,744	-
Unrestricted (Deficit)	(21,807)	203,670	25,091	206,954	299,552
Total Net Position	\$ 3,139,298	\$ 4,488,996	\$ 25,091	\$ 7,653,385	\$ 777,337

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, 2019**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 760,896	\$ 976,310	\$ 202,312	\$ 1,939,518	\$ 741,717
Intergovernmental	-	8,500	-	8,500	-
Other	24,032	31,338	6,814	62,184	29,891
Total Operating Revenues	<u>784,928</u>	<u>1,016,148</u>	<u>209,126</u>	<u>2,010,202</u>	<u>771,608</u>
Operating Expenses:					
Personal services	151,203	189,128	637	340,968	577,705
Pension and OPEB expense	(341,749)	(341,750)	-	(683,499)	-
Administrative expenses	205,000	205,000	40,000	450,000	40,000
Supplies and postage	20,680	22,132	2,191	45,003	35,963
Other services	179,331	191,855	175,211	546,397	105,726
Depreciation	218,014	497,569	-	715,583	159,733
Total Operating Expenses	<u>432,479</u>	<u>763,934</u>	<u>218,039</u>	<u>1,414,452</u>	<u>919,127</u>
Operating income (loss)	<u>352,449</u>	<u>252,214</u>	<u>(8,913)</u>	<u>595,750</u>	<u>(147,519)</u>
Non-Operating Revenues (Expenses):					
Gain on sale of assets	-	-	-	-	9,500
Interest income	1,995	6,232	-	8,227	431
Interest subsidy	19,002	14,845	-	33,847	-
Interest expense	(95,405)	(173,819)	-	(269,224)	(11,270)
Total Non-Operating Revenues (Expenses)	<u>(74,408)</u>	<u>(152,742)</u>	<u>-</u>	<u>(227,150)</u>	<u>(1,339)</u>
Net income (loss) before transfers	278,041	99,472	(8,913)	368,600	(148,858)
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Change in Net Position	278,041	99,472	(8,913)	368,600	(146,858)
Net Position at beginning of year	<u>2,861,257</u>	<u>4,389,524</u>	<u>34,004</u>	<u>7,284,785</u>	<u>924,195</u>
Net Position at end of year	<u>\$ 3,139,298</u>	<u>\$ 4,488,996</u>	<u>\$ 25,091</u>	<u>\$ 7,653,385</u>	<u>\$ 777,337</u>

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, 2019

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 798,807	\$ 1,009,358	\$ 211,298	\$ 2,019,463	\$ 26,276
Cash receipts (payments) from interfund services	(205,000)	(205,000)	(40,000)	(450,000)	741,717
Cash payments to suppliers	(192,887)	(201,773)	(177,402)	(572,062)	(692,192)
Cash payments to employees	(152,545)	(188,899)	(682)	(342,126)	(83,797)
Net Cash Provided by (Used in) Operating Activities	<u>248,375</u>	<u>413,686</u>	<u>(6,786)</u>	<u>655,275</u>	<u>(7,996)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers from other fund	-	-	-	-	2,000
Cash Flows From Capital and Related Financing Activities:					
Lease payments	(35,308)	(46,950)	-	(82,258)	-
Bond/Note payments	(43,000)	(191,654)	-	(234,654)	(74,964)
Interest paid on long term debt	(95,536)	(175,183)	-	(270,719)	(12,650)
Interest subsidy	19,002	14,845	-	33,847	-
Proceeds from sale of capital assets	-	-	-	-	9,500
Acquisition of capital assets	(312,249)	(238,117)	-	(550,366)	(46,569)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(467,091)</u>	<u>(637,059)</u>	<u>-</u>	<u>(1,104,150)</u>	<u>(124,683)</u>
Cash Flows From Investing Activities:					
Interest earned	1,995	6,232	-	8,227	431
Net Decrease in Cash and Cash Equivalents	(216,721)	(217,141)	(6,786)	(440,648)	(130,248)
Cash and cash equivalents at beginning of year	556,391	865,978	21,941	1,444,310	428,871
Cash and cash equivalents at end of year	<u>\$ 339,670</u>	<u>\$ 648,837</u>	<u>\$ 15,155</u>	<u>\$ 1,003,662</u>	<u>\$ 298,623</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used in) Operating Activities:					
Operating income (loss)	\$ 352,449	\$ 252,214	\$(8,913)	\$ 595,750	\$(147,519)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -					
Depreciation	218,014	497,569	-	715,583	159,733
Change in assets and liabilities:					
Receivable	13,429	1,710	2,172	17,311	(3,615)
Prepaid and deposits	450	-	-	450	(28,556)
Inventory	5,763	1,277	-	7,040	3
Deferred outflows of resources	(29,115)	(29,115)	-	(58,230)	-
Deferred inflows of resources	9,455	9,455	-	18,910	-
Accounts payable/accrued expenses	(322,070)	(319,424)	(45)	(641,539)	11,958
Net Cash Provided by (Used in) Operating Activities	<u>\$ 248,375</u>	<u>\$ 413,686</u>	<u>\$(6,786)</u>	<u>\$ 655,275</u>	<u>\$(7,996)</u>

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

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

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

DISCRETELY PRESENTED COMPONENT UNIT -

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

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

RELATED ORGANIZATION -

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

B. Government-wide and Fund Financial Statements -

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

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

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

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The City reports the following major governmental funds:

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

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

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

Street Projects Fund - is a capital projects fund used to account for and report financial resources that are restricted, committed, or assigned for street construction 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 Types -

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

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

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

Proprietary Fund Type -

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

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

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

Deposits and Investments -

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

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

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

Receivables and Payables -

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

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Inventories and Prepaid Items -

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

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

Property Taxes -

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

The City is permitted by state statute to levy taxes of 16.5205 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 16.5205 mills for general governmental purposes plus 7.7010 mills for debt service, 1.3500 mills for ambulance services, and 0.2000 for transportation.

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

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 Liabilities -

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

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

Deferred Outflows/Inflows of Resources -

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 reports 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. The City also reports deferred inflows of resources related to the net pension and net OPEB liabilities.

Fund Balance -

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

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

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

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

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

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

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

The City Council adopted a "minimum fund balance" policy for the City's General Fund that specifies the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least 20% of the average of the past three (3) fiscal years' General Fund expenses, except in the case of emergency or financial distress as directed by the Durand City Council. As of June 30, 2019, the City is in compliance with this requirement.

Estimates -

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Upcoming Accounting Pronouncements -

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

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017, and will become effective for the City's June 30, 2020 fiscal year. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 87, *Leases*, was issued in June 2017 and will become effective for the City's June 30, 2021 fiscal year. The objective of the statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use of an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the City's leasing activities.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

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

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

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A public hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General, Major, 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.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level. The Michigan Department of Treasury requires the reporting of any significant overages at the legal level of budgetary control (any overages at the legal level of budgetary control greater than 10% of total expenditures and the overage itself is larger than 10%). For the fiscal year ended June 30, 2019, the City did not have any overages that exceeded this threshold.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2019, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash on Hand - Petty Cash	\$ 250	\$ 50	\$ 300
Deposits with Financial Institutions -			
Checking	3,991,131	79,544	4,070,675
Savings/Money Markets	<u>841,732</u>	<u>-</u>	<u>841,732</u>
Total Deposits	<u>4,832,863</u>	<u>79,544</u>	<u>4,912,407</u>
Investments -			
Investment Pools	<u>243,918</u>	<u>-</u>	<u>243,918</u>
	<u>\$ 5,077,031</u>	<u>\$ 79,594</u>	<u>\$ 5,156,625</u>

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.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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, 2019, the bank balance of the City's deposits was \$5,001,919, of which \$1,084,455 was insured with the remaining balance of \$3,917,464 exposed to credit risk because it is uninsured and uncollateralized.

Investments -

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

At June 30, 2019, the City was invested in investment pools in the amount of \$243,918. The investments are considered money market funds as defined by GASB, and as such are recorded at amortized cost, which approximates fair value. The funds require no notification of redemption to avoid penalties. The funds are not subject to the fair value disclosures under GASB Statement No. 72.

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.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The City has \$236,319 invested with the Michigan Cooperative Liquid Assets Security System (Michigan CLASS). Michigan CLASS is a participant-controlled trust created in accordance with Section 5 of Act 7 of the Urban Cooperation Act of 1967 and the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150. Michigan CLASS funds are authorized to invest in U.S. Treasuries, U.S. Agencies, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit, and mutual funds. Michigan CLASS is not subject to regulatory oversight and is not registered with the SEC, however, does issue a separate audited financial statement, which can be obtained at www.michiganclass.org. Michigan CLASS operates like a money market mutual fund, with each share valued at \$1.00. Fair value of the City's position in the government investment pool is the same as the value of the Michigan CLASS pool shares. The average days to maturity are 65 days. Michigan CLASS is rated AAAM by Standard and Pools.

The City has \$7,599 invested with U.S. Bank in the First American Government Obligations Fund Class D. The fund seeks maximum current income to the extent consistent with the preservation of capital and maintenance of liquidity. The fund invests exclusively in short-term U.S. government securities, including repurchase agreements secured by U.S. government securities. The fund operates like a money market mutual fund, with each share valued at \$1.00. Fair value of the City's position in the fund is the same as the value of the fund pool shares. The average days to maturity are 19 days. The First American Government Obligations Fund Class D is rated AAAM by Standard and Pools.

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

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business type activities as of June 30, 2019 are as follows:

	Governmental Activities	Business-type Activities
Interest and accounts	\$ 26,132	\$ 358,416
Intergovernmental	247,401	-
	\$ 273,533	\$ 358,416

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS:

Primary Government -

Capital asset activity of the primary government for the year ended June 30, 2019 was as follows:

	July 1, 2018		Deletions/	June 30, 2019
Governmental Activities:	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,694,914	\$ -	\$ -	\$ 1,694,914
Construction in progress -				
Infrastructure	<u>328,812</u>	<u>1,624,509</u>	<u>1,768,741</u>	<u>184,580</u>
Total capital assets, not being depreciated	<u>2,023,726</u>	<u>1,624,509</u>	<u>1,768,741</u>	<u>1,879,494</u>
Capital assets, being depreciated:				
Buildings and improvements	4,170,100	361,810	-	4,531,910
Infrastructure	5,102,995	1,432,231	-	6,535,226
Machinery and equipment	1,703,982	19,226	-	1,723,208
Vehicles	<u>1,492,930</u>	<u>34,749</u>	<u>25,608</u>	<u>1,502,071</u>
Total capital assets, being depreciated	<u>12,470,007</u>	<u>1,848,016</u>	<u>25,608</u>	<u>14,292,415</u>
Less accumulated depreciation:				
Buildings and improvements	2,243,932	134,316	-	2,378,248
Infrastructure	1,625,071	249,103	-	1,874,174
Machinery and equipment	1,082,116	104,104	-	1,186,220
Vehicles	<u>1,067,257</u>	<u>60,316</u>	<u>25,608</u>	<u>1,101,965</u>
Total accumulated depreciation	<u>6,018,376</u>	<u>547,839</u>	<u>25,608</u>	<u>6,540,607</u>
Total capital assets, being depreciated, net	<u>6,451,631</u>	<u>1,300,177</u>	<u>-</u>	<u>7,751,808</u>
Governmental activities, net	<u>\$ 8,475,357</u>	<u>\$ 2,924,686</u>	<u>\$ 1,768,741</u>	<u>\$ 9,631,302</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 147,400	\$ -	\$ -	\$ 147,400
Construction in progress -				
Water	515,888	205,990	721,878	-
Sanitary sewer	<u>590,872</u>	<u>192,433</u>	<u>747,622</u>	<u>35,683</u>
Total capital assets, not being depreciated	<u>1,254,160</u>	<u>398,423</u>	<u>1,469,500</u>	<u>183,083</u>
Capital assets, being depreciated:				
Buildings and improvements	3,824,802	1,285,830	-	5,110,632
Machinery and equipment	173,187	-	-	173,187
Vehicles	27,793	-	-	27,793
Wastewater system	13,855,604	213,354	-	14,068,958
Water System	<u>8,514,214</u>	<u>4,259</u>	<u>-</u>	<u>8,518,473</u>
Total capital assets, being depreciated	<u>26,395,600</u>	<u>1,503,443</u>	<u>-</u>	<u>27,899,043</u>
Less - Accumulated depreciation:				
Building and improvements	3,043,391	90,647	-	3,134,038
Machinery and equipment	122,093	25,547	-	147,640
Vehicles	25,680	2,113	-	27,793
Waste Water system	3,218,364	389,976	-	3,608,340
Water system	<u>2,987,687</u>	<u>207,300</u>	<u>-</u>	<u>3,194,987</u>
Total accumulated depreciation	<u>9,397,215</u>	<u>715,583</u>	<u>-</u>	<u>10,112,798</u>
Total capital assets, being depreciated, net	<u>16,998,385</u>	<u>787,860</u>	<u>-</u>	<u>17,786,245</u>
Business-type activities, net	<u>\$ 18,252,545</u>	<u>\$ 1,186,283</u>	<u>\$ 1,469,500</u>	<u>\$ 17,969,328</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

	July 1, 2018		Deletions/	June 30, 2019
Component Unit (DDA):	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Capital assets, being depreciated:				
Building and improvements	298,507	-	-	298,507
Infrastructure	198,000	-	-	198,000
Machinery and equipment	<u>22,530</u>	<u>-</u>	<u>-</u>	<u>22,530</u>
Total capital assets, being depreciated	519,037	-	-	519,037
Less - Accumulated depreciation	<u>247,925</u>	<u>17,961</u>	<u>-</u>	<u>265,886</u>
Total capital assets, being depreciated, net	<u>271,112</u>	<u>(17,961)</u>	<u>-</u>	<u>253,151</u>
Component unit capital assets, net	<u>\$ 331,112</u>	<u>\$(17,961)</u>	<u>\$ -</u>	<u>\$ 313,151</u>

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

Governmental Activities:	
General Government	\$ 38,440
Public Safety	11,262
Public Works	243,993
Health and Welfare	8,574
Recreation and Cultural	<u>85,837</u>
Depreciation Expense - Governmental Activities	388,106
Depreciation Expense - Internal Service Funds	<u>159,733</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 547,839</u>
Business-type Activities:	
Water Fund	\$ 218,014
Wastewater Fund	<u>497,569</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 715,583</u>
Component Unit Activities:	
Downtown Development Authority	<u>\$ 17,961</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Construction/Purchase Commitments -

The City has committed to the following contracts at June 30, 2019 (These commitments do not include any change orders made after June 30, 2019):

	<u>Contract Amount</u>	<u>Payments Through 6/30/2019</u>	<u>Accounts Payable/ Retention</u>	<u>Remaining Balance 6/30/2019</u>
2019 Street Improvements -				
Construction	\$ 1,389,344	\$ -	\$ -	\$ 1,389,344
Engineering	288,000	176,135	8,277	103,588
Genesee Street Storm Sewer Improvements -				
Construction	31,800	-	-	31,800
Engineering	176,000	18,050	17,633	140,317

NOTE 6 - PAYABLES:

Payables in the governmental and business-type activities as of June 30, 2019 are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable and retainage	\$ 29,855	\$ 31,366
Accrued wages and fringe benefits	<u>18,380</u>	<u>6,864</u>
	<u>\$ 48,235</u>	<u>\$ 38,230</u>

NOTE 7 - INTERFUND TRANSFERS:

Transfers In/Out Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Employee Benefits Fund	General Fund	\$ 2,000 (1)
Local Street Fund	Major Street Fund	10,000 (2)
	Street Projects Fund	632,870 (2)
Major Street Fund	Street Projects Fund	333,460 (2)
Street Millage Fund	Street Projects Fund	56,000 (3)
Building Inspection Fund	General Fund	<u>400 (1)</u>
Total Transfers		<u>\$ 1,034,730</u>

- (1) Funding to subsidize operations
- (2) Funding of current/future improvements
- (3) Funding to cover debt principal and interest

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Governmental Funds -					
2012 G.O. Bonds Refunding	\$ 276,000	\$ -	\$ 276,000	\$ -	\$ -
2018 Street Improvement Bonds	1,024,000	-	275,000	749,000	43,000
2019 Street Improvement Bonds	-	2,400,000	-	2,400,000	255,000
Installment Purchases -					
2004 Land	64,119	-	42,237	21,882	21,882
2015 Land	10,000	-	10,000	-	-
2015 Infrastructure	105,000	-	15,000	90,000	15,000
Capital Lease -					
2017 Energy Conservation	337,269	-	16,459	320,810	17,519
Total Governmental Funds	<u>1,816,388</u>	<u>2,400,000</u>	<u>634,696</u>	<u>3,581,692</u>	<u>352,401</u>
Internal Service Funds -					
Installment Purchases -					
2012 Fire Truck	124,130	-	29,870	94,260	30,632
2015 Vactor	254,169	-	38,589	215,580	39,554
2016 Loader	132,904	-	6,505	126,399	126,399
Compensated Absences	36,096	13,279	-	49,375	-
Total Internal Service Funds	<u>547,299</u>	<u>13,279</u>	<u>74,964</u>	<u>485,614</u>	<u>196,585</u>
Total Governmental Activities	<u>2,363,687</u>	<u>2,413,279</u>	<u>709,660</u>	<u>4,067,306</u>	<u>548,986</u>
Enterprise Funds -					
Wastewater Fund -					
Revenue Bonds -					
SDS, Series 2015 A	4,047,000	-	75,000	3,972,000	77,000
SDS, Series 2015 B	1,458,000	-	26,000	1,432,000	27,000
SDS, Series 2015 C	1,410,000	-	25,000	1,385,000	26,000
Installment Purchases -					
2015 Infrastructure	105,000	-	15,000	90,000	15,000
2017 Sewer Pumps	130,616	-	32,654	97,962	32,654
Capital Leases -					
2016 Sewer Camera	61,206	-	19,367	41,839	20,384
2017 Energy Conservation	565,224	-	27,583	537,641	29,360
Compensated Absences	2,778	327	-	3,105	-
Judgement Payable	26,000	-	18,000	8,000	8,000
Water Fund -					
Revenue Bonds -					
WSS, Series 2015 A	1,409,000	-	22,000	1,387,000	23,000
WSS, Series 2015 B	772,000	-	12,000	760,000	13,000
WSS, Series 2017	380,000	-	9,000	371,000	9,000
Capital Lease -					
2017 Energy Conservation	723,507	-	35,308	688,199	37,581
Compensated Absences	2,778	328	-	3,106	-
Total Business-type Activities	<u>11,093,109</u>	<u>655</u>	<u>316,912</u>	<u>10,776,852</u>	<u>317,979</u>
Total Primary Government	<u>\$13,456,796</u>	<u>\$ 2,413,934</u>	<u>\$ 1,026,572</u>	<u>\$14,844,158</u>	<u>\$ 866,965</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

Governmental Fund Bonds -

<p>On June 7, 2018, the City issued 2018 Street Improvement Bonds (Unlimited Tax General Obligation) in the amount of \$1,024,000 to fund street improvements. Annual principal payments of \$42,000 to \$275,000 are due November 1 of each year through 2032 with interest of 3.58%, payable semi-annually.</p>	\$ 749,000
<p>On May 16, 2019, the City issued 2019 Street Improvement Bonds (Unlimited Tax General Obligation) in the amount of \$2,400,000 to fund street improvements. Annual principal payments of \$55,000 to \$255,000 are due November 1 of each year through 2039 with interest ranging from 2.15-3.10%, payable semi-annually.</p>	<u>2,400,000</u>
	<u>\$ 3,149,000</u>

Water and Wastewater Revenue Bonds -

<p>Water Supply System (WSS) Revenue Bonds, Series 2015 A, for \$1,473,000 through the United States Department of Agriculture (USDA), Rural Development Water and Wastewater Loan program, to fund water improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.75%.</p>	\$ 1,387,000
<p>WSS Revenue Bonds, Series 2015 B, for \$807,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund water improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.75%.</p>	760,000
<p>WSS Revenue Bonds, Series 2017, for \$500,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund water improvements. Principal payments on the loan are due May 1 of each year through 2057 with interest payable semi-annually at 1.875%.</p>	371,000
<p>Sewage Disposal System (SDS) Revenue Bonds, Series 2015 A, for \$4,393,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund wastewater improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.125%.</p>	3,972,000
<p>SDS Revenue Bonds, Series 2015 B, for \$1,534,000 through the USDA, Rural Development Water and Wastewater Loan program, to fund wastewater improvements. Principal payments on the loan are due May 1 of each year through 2055 with interest payable semi-annually at 2.125%.</p>	1,432,000

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

\$ 1,385,000

\$ 9,307,000

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%.

\$ 21,882

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%.

94,260

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%.

180,000

On July 15, 2015, the City entered into an installment purchase agreement for the purchase of a new Vactor in the amount of \$328,548. Payments are due annually over five years, with four payments ranging from \$36,730 to \$39,554 and a final payment of \$176,026, with interest payable annually at 2.50%.

215,580

On October 5, 2016, the City entered into an installment purchase agreement for the purchase of a new loader in the amount of \$144,205. Monthly payments of \$803 are due over three years including interest of 2.41%, with a final payment of \$125,000 due in October 2019.

126,399

In July 2017, the City entered into an installment purchase agreement for the purchase of six sewer pumps. Payments of \$32,564 are due annually over 4 years.

97,962

\$ 736,083

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Capital Leases -

In July 2016, the City entered into a capital lease agreement to finance a sewer camera in the amount of \$102,188. Payments of \$22,581 are due annually over four years including interest of 5.251%. At June 30, 2019, the gross asset value is \$102,188 with accumulated depreciation of \$76,641, leaving a net book value of \$25,547. Amortization expense of \$25,547 is included as part of the depreciation expense. \$ 41,839

On December 28, 2017 the City entered into a lease agreement to finance various energy conservation equipment in the amount of \$1,626,000, which will be paid as follows: \$337,269 from the General Fund, \$565,224 from the Wastewater Fund, and \$723,507 from the Water Fund. The lease is subject to annual appropriations of the City Council. Should the Council not appropriate annual lease payments the lease would terminate with the assets returned to the lessor. However, because it is the intent of the City Council to complete the lease and have the assets revert to the City at the end of the lease, the lease has been recorded as a capital lease. Principal payments are due annually on May 1 through 2032 with interest payable semi-annually at 3.93%. The agreement, via the Qualified Energy Conservation Bond program, qualifies for an interest subsidy to be received from the Internal Revenue Service (IRS), which is based on 70% of the maximum subsidy rate determined daily by the IRS. At June 30, 2019, the gross asset value is \$1,622,340 with accumulated depreciation of \$16,223, leaving a net book value of \$1,606,117. Amortization expense of \$16,223 is included as part of the depreciation expense. 1,546,650

\$ 1,588,489

Judgement Payable -

In June 2017, the City and the State of Michigan Department of Environmental Quality entered into an Administrative Consent Order for violations of the Natural Resources and Environmental Protection Act in the amount of \$44,000. A final payment of \$8,000 is due in July 2019. 8,000

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2019 (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
2020	\$ 298,000	\$ 85,748	\$ 175,000	\$ 210,265	\$ 281,121	\$ 14,089
2021	97,000	83,596	179,000	206,342	270,093	10,043
2022	100,000	80,814	181,000	202,333	94,869	4,037
2023	105,000	77,895	187,000	198,278	30,000	2,412
2024	109,000	74,848	191,000	194,081	30,000	1,608
2025-2029	634,000	321,324	1,016,000	926,722	30,000	804
2030-2034	791,000	214,229	1,137,000	809,868	-	-
2035-2038	1,015,000	80,429	1,275,000	678,968	-	-
2040-2044	-	-	1,425,000	532,102	-	-
2045-2049	-	-	1,590,000	367,724	-	-
2050-2054	-	-	1,719,000	184,558	-	-
2055-2057	-	-	232,000	19,068	-	-
	<u>\$ 3,149,000</u>	<u>\$ 1,018,882</u>	<u>\$ 9,307,000</u>	<u>\$ 4,530,309</u>	<u>\$ 736,083</u>	<u>\$ 32,993</u>

Year Ending June 30,	Capital Leases		Judgement Payable	
	Principal	Interest	Principal	Interest
2020	\$ 104,844	\$ 62,980	\$ 8,000	\$ -
2021	111,215	58,591	-	-
2022	95,110	53,937	-	-
2023	100,660	50,199	-	-
2024	106,420	46,243	-	-
2025-2029	621,600	163,837	-	-
2030-2033	448,640	35,781	-	-
	<u>\$ 1,588,489</u>	<u>\$ 471,568</u>	<u>\$ 8,000</u>	<u>\$ -</u>

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, Equipment Revolving Fund, and Employee Benefits Fund in the amounts of \$3,106, \$3,105, \$190, and \$49,185, respectively, at June 30, 2019.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Downtown Development Authority -					
Tax Development Bonds	\$ 545,000	\$ -	\$ 35,000	\$ 510,000	\$ 40,000
2015 Installment Purchase - Land	5,000	-	5,000	-	-
2015 Installment Purchase Agreement	<u>105,000</u>	<u>-</u>	<u>15,000</u>	<u>90,000</u>	<u>15,000</u>
Total Downtown Development Authority	<u>\$ 655,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 600,000</u>	<u>\$ 55,000</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. \$ 510,000

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%. 90,000

\$ 600,000

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2019 are as follows:

Year Ending June 30,	<u>Development Bonds</u>		<u>Installment Purchases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 40,000	\$ 22,050	\$ 15,000	\$ 2,412
2021	45,000	20,138	15,000	2,010
2022	50,000	18,000	15,000	1,608
2023	50,000	15,750	15,000	1,206
2024	55,000	13,388	15,000	804
2025-2028	<u>270,000</u>	<u>25,425</u>	<u>15,000</u>	<u>402</u>
	<u>\$ 510,000</u>	<u>\$ 114,751</u>	<u>\$ 90,000</u>	<u>\$ 8,442</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - PENSION PLANS:

Plan Descriptions -

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

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense have been determined on the same basis as they are reported by the pension plan (the "Plan"). The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded when due pursuant to legal, statutory, and contractual requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with benefit terms.

The membership at December 31, 2018 was comprised of 20 active participants, 21 retirees and beneficiaries, and 6 other vested inactive participants.

Benefits Provided -

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

Hybrid Plan member benefits are calculated as 1.5% of the employees' three-year final average compensation.

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Contributions -

The Plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate. During the year ended June 30, 2019, contributions totaling \$228,666 were made in accordance with contribution requirements determined by an actuarial valuation for the Plan as of December 31, 2017. 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.

Net Pension Liability -

The net pension liability was measured as of December 31, 2018, as determined by an actuarial valuation performed as of that date, and the changes in the net pension liability are composed of the following:

	<u>Total Pension Liability</u>	<u>Plan's Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2017	\$ 6,316,133	\$ 4,263,363	\$ 2,052,770
Service cost	72,295	-	72,295
Interest on total pension liability	492,302	-	492,302
Differences between expected and actual experience	(88,516)	-	(88,516)
Net investment income	-	(162,555)	162,555
Contributions from employer	-	222,994	(222,994)
Benefit payments	(393,724)	(393,724)	-
Administrative costs	-	(8,161)	8,161
Other changes	<u>131</u>	<u>-</u>	<u>131</u>
Balance at December 31, 2018	<u>\$ 6,398,621</u>	<u>\$ 3,921,917</u>	<u>\$ 2,476,704</u>

Plan fiduciary net position as a percentage of the total pension liability 61.3%

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

For the year ended June 30, 2019, the City recognized pension expense of \$360,213 in the government-wide and proprietary fund financial statements of the primary government. At June 30, 2019, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on Plan investments	\$ 283,832	\$ -
Differences between expected and actual experience	<u>43,104</u>	<u>66,387</u>
	326,936	66,387
Contributions made subsequent to the measurement date	<u>115,026</u>	<u>-</u>
	<u>\$ 441,962</u>	<u>\$ 66,387</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

2020	\$	96,916
2021		25,235
2022		41,191
2023		<u>97,207</u>
	\$	<u>260,549</u>

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2018. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from January 1, 2009 through December 31, 2013.

Salary Increases - 3.75%

Inflation - 2.5%

Investment Rate of Return - 7.75%

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 actuarially determined contribution rates.

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2018 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	55.50 %	3.41 %
Global Fixed Income	18.50	.23
Real Assets	13.50	.97
Diversifying Strategies	12.50	.67

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.

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net pension liability	\$ <u>3,180,761</u>	\$ <u>2,476,704</u>	\$ <u>1,877,526</u>

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Summary of Significant Accounting Policies -

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

Benefits Provided -

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

OPEB Plan Membership -

At June 30, 2019, OPEB Plan membership consisted of 8 active members and 12 inactive members or beneficiaries receiving benefits.

Contributions -

During the year ended June 30, 2019, actuarially determined contributions were \$432,073 and actual contributions of \$114,489 were made. No member contributions are required.

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

Investment Policy -

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

The long-term expected rate of return on the OPEB Plan's investments was determined using a building block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and investment expenses. The adopted asset allocation policy and the best estimates of arithmetic real rates of return for each asset class as of June 30, 2019 are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Capital Preservation Portfolio	11.90 %	1.00 %
Balanced Inc. Portfolio	61.80	1.80
Short-term Income	26.30	(1.50)

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Methods and Assumptions -

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

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

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

Marital Status - 70.00% will have a covered spouse at retirement with females 3 years younger than males; actual spouse data used for non-active members.

Mortality - Pub-2010 Public Retirement Plans Mortality Tables for Public Safety/General Employees, Healthy Retirees, and Disabled Members; annuitant and non-annuitant, sex-distinct.

Healthcare Cost Trend Rate - Medical premiums: Pre-Medicare - 8.50% graded down to 4.50% by 0.25% per year, Medicare - 7.00% graded down to 4.50% by 0.25% per year.

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

Payroll Growth Rate - The expected long-term payroll growth rate assumption of 3.59%.

Discount Rate - A discount rate of 3.00% was used. The discount rate was based on the 20-year Aa municipal bond rate. The assets are not projected to be sufficient to make projected future benefit payments of current OPEB Plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets, the "depletion date" ("crossover point"), 2019, projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability. The discount rate was 3.00% for June 30, 2018.

Assumption changes since the prior valuation are as follows:

- The mortality table changed from RPH-2014 adjusted to 2006 Total Data Set with MP-2017 no pre-retirement mortality tables to the Pub-2010 Public Retirement Plans Mortality Tables for Public Safety/General Employees, Healthy Retirees, and Disabled Members; annuitant, non-annuitant, sex-distinct.
- Medical trend rates changed from 8.00% graded down to 5.00% over six years to rates prescribed under PA 202.
- The salary scale changed from 2.00% to 3.50%

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Net OPEB Liability of the City -

The net OPEB liability of the City has been measured as of June 30, 2019, as determined by an actuarial valuation performed as of that date, and the changes in net OPEB liability are composed of the following:

	<u>Total OPEB Liability</u>	<u>OPEB Plan's Net Position</u>	<u>Net OPEB Liability</u>
Beginning Balance	\$ 5,556,151	\$ 106,023	\$ 5,450,128
Service cost	115,616	-	115,616
Interest on net OPEB liability	168,736	-	168,736
Difference between expected and actual experience	(189,616)	-	(189,616)
Change in OPEB Plan terms	(3,091,438)	-	(3,091,438)
Changes in assumptions	172,941	-	172,941
Net investment income	-	6,189	(6,189)
Contributions from employer	-	114,489	(114,489)
Benefit payments	(94,489)	(94,489)	-
Administrative expenses	<u>-</u>	<u>(236)</u>	<u>236</u>
Ending Balance	<u>\$ 2,637,901</u>	<u>\$ 131,976</u>	<u>\$ 2,505,925</u>

OPEB Plan fiduciary net position as a percentage of total OPEB liability 5.00%

OPEB Expense and Deferred Inflows of Resources Related to OPEB -

For the year ended June 30, 2019, the City recognized OPEB expenses of \$(2,816,565) for the OPEB Plan in the government-wide and proprietary fund financial statements of the primary government. At June 30, 2019, the City reported deferred outflows/deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB Plan investments	\$ -	\$ 4,100
Changes in assumptions	124,902	-
Difference between expected and actual experience	<u>-</u>	<u>136,945</u>
	<u>\$ 124,902</u>	<u>\$ 141,045</u>

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

2020	\$(5,844)
2021	(5,844)
2022	(3,993)
2023	<u>(462)</u>
	<u>\$(16,143)</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

The following presents the OPEB liability of the City, calculated using the discount rate of 3.00% as well as what the OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.00%) or one-percentage-point higher (4.00%) than the current rate.

	<u>1% Decrease</u> <u>(2.00%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(3.00%)</u>	<u>1% Increase</u> <u>(4.00%)</u>
OPEB liability	\$ <u>2,911,883</u>	\$ <u>2,505,925</u>	\$ <u>2,178,192</u>

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

The following presents the OPEB liability of the City, calculated using the healthcare cost trend rate of 8.50/7.00%, graded down to 4.50% over six years, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower (7.50/6.00%) or one-percentage-point higher (9.50/8.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current</u> <u>Healthcare</u> <u>Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Liability	\$ <u>2,293,492</u>	\$ <u>2,505,925</u>	\$ <u>2,767,570</u>

NOTE 11 - RISK MANAGEMENT:

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

General Liability -

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

Workers' Compensation -

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

Health Insurance -

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

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019.

NOTE 13 - NET POSITION/FUND BALANCE:

Primary Government:

Net Investment in Capital Assets -

Governmental Activities:

Capital Assets	\$ 9,631,302
Less - Related Debt:	
2019 Street Improvement Bonds	(2,400,000)
2018 Street Improvement Bonds	(749,000)
Installment Purchases	(548,121)
2017 Energy Conservation Lease	(320,810)
Plus - Unspent Debt Proceeds:	
2019 Street Improvement Bonds	<u>2,215,420</u>
	<u>\$ 7,828,791</u>

Business-type Activities:

Capital Assets	\$ 17,969,328
Less - Related Debt:	
Revenue Bonds	(9,307,000)
Installment Purchases	(187,962)
Capital Leases	<u>(1,267,679)</u>
	<u>\$ 7,206,687</u>

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Primary Government - continued:

Restricted Fund Balance/Net Position -

Governmental Activities/Fund:

General Fund -

Park Donations - General	\$ 20,933
Park Development - Diamond District Park	4,716
Other	3,060

Major Street Fund -

Street Maintenance and Improvements	528,497
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Local Street Fund -

Street Maintenance and Improvements	230,950
-------------------------------------	---------

Street Projects Fund -

Street Maintenance and Improvements	226,348
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Building Inspection Fund -

Inspections	9,073
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Ambulance Fund -

Ambulatory Service	36,740
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Street Millage Fund -

Debt Service	261
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2012 Water Bond Debt -

Debt Service	6,602
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Total Restricted for Governmental Activities	<u>1,067,180</u>
--	------------------

Unspent Bond Proceeds:

2017 Energy Conservation Lease	1,576
2019 Street Improvement Bonds	<u>2,215,420</u>
	<u>2,216,996</u>

Nonspendable - Inventory	(<u>4,056</u>)
--------------------------	------------------

Total Restricted for Governmental Funds	<u>\$ 3,280,120</u>
---	---------------------

Business-type Activities:

Water Fund -

Debt retirement	\$ 56,869
Well head protection	15,000
Repairs, replacements, and improvements	<u>13,000</u>
	<u>84,869</u>

Sewer Fund -

Debt retirement	142,375
Repairs, replacements, and improvements	<u>12,500</u>
	<u>154,875</u>

Total Restricted for Business-type Activities	<u>\$ 239,744</u>
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CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Primary Government - continued:

Nonspendable -

General Fund:

Prepays and deposits	\$ 5,170
Major Street Fund - Inventory	2,028
Local Street Fund - Inventory	<u>2,028</u>

Total Nonspendable \$ 9,228

Committed Fund Balance -

Committed:

General Fund minimum fund balance	\$ 390,695
Sidewalk and Curbs Fund - Sidewalk and curb improvement	<u>31,368</u>

Total Committed Fund Balance \$ 422,063

Component Unit:

Net Investment in Capital Assets -

Capital Assets	\$ 313,151
Installment Purchase Agreement	<u>(90,000)</u>
	<u><u>\$ 223,151</u></u>

Restricted Net Position/Fund Balance -

Downtown Development Authority - Wednesday Night Live \$ 8,921

Assigned Fund Balance -

2019/2020 Budget \$ 7,087

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 \$510,000 used to purchase the property.

CITY OF DURAND
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 15 - OPTION TO PURCHASE PROPERTY:

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

NOTE 16 - SUBSEQUENT EVENT:

In September 2019, the City entered into an installment purchase agreement for the purchase of a new loader in the amount of \$191,201. Monthly payments of \$1,836 are due over five years including interest of 3.90%, with a final payment of \$110,302 due in September 2024.

In September 2019, the City entered into an agreement for storm sewer replacement in the amount of \$313,307. The agreement will be funded by a Community Development Block Grant (CDBG) federal award.

In November 2019, the City entered into an agreement for engineering for the 2020 Street Project in the amount of \$207,500.

NOTE 17 - RECLASSIFICATION:

The Street Fund, reported in prior years as a Special Revenue Fund, has been reclassified as a capital project fund for fiscal 2019 to more accurately align with its current intended purpose. The reclassification had no effect on total fund balance.

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, 2019**

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 1,080,000	\$ 1,082,315	\$ 1,082,296	\$(19)
Licenses and permits	47,500	47,500	48,355	855
Intergovernmental	493,300	484,190	487,167	2,977
Charges for services	44,500	56,656	56,445	(211)
Fines and forfeits	6,000	7,600	7,354	(246)
Interest and rents	40,000	31,600	40,470	8,870
Other	1,600	77,670	78,216	546
Total Revenues	<u>1,712,900</u>	<u>1,787,531</u>	<u>1,800,303</u>	<u>12,772</u>
Expenditures:				
General Government -				
Legislative	15,450	14,900	14,856	44
City Manager	129,080	131,255	124,642	6,613
Elections	8,850	9,945	9,663	282
Assessor	32,865	33,175	32,464	711
City Clerk	201,960	195,860	191,295	4,565
Treasurer	132,075	131,625	126,639	4,986
General Administration	289,200	348,536	284,668	63,868
	<u>809,480</u>	<u>865,296</u>	<u>784,227</u>	<u>81,069</u>
Less: Reimbursement from other funds	(445,000)	(525,000)	(525,000)	-
Total General Government	<u>364,480</u>	<u>340,296</u>	<u>259,227</u>	<u>81,069</u>
Public Safety -				
Police Department	639,400	581,835	578,889	2,946
Fire Department	120,200	123,385	119,507	3,878
Total Public Safety	<u>759,600</u>	<u>705,220</u>	<u>698,396</u>	<u>6,824</u>
Public Works -				
Director of Public Works	125,055	123,655	123,755	(100)
Department of Public Works	314,800	358,950	350,669	8,281
Total Public Works	<u>439,855</u>	<u>482,605</u>	<u>474,424</u>	<u>8,181</u>
Recreation and Cultural-				
Parks and Recreation	63,950	154,760	150,355	4,405
Community and Economic Development -				
Planning	10,800	9,000	8,285	715
Debt Service -				
Principal	60,530	84,000	83,696	304
Interest	9,070	18,350	18,344	6
Total Debt Service	<u>69,600</u>	<u>102,350</u>	<u>102,040</u>	<u>310</u>
Total Expenditures	<u>1,708,285</u>	<u>1,794,231</u>	<u>1,692,727</u>	<u>101,504</u>
Revenues over (under) expenditures	<u>4,615</u>	<u>(6,700)</u>	<u>107,576</u>	<u>114,276</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, 2019**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses):				
Sale of property	\$ -	\$ 6,700	\$ 235,350	\$ 228,650
Transfers out	(33,050)	-	(2,400)	(2,400)
Total Other Financing Sources (Uses)	(33,050)	6,700	232,950	226,250
Net change in Fund Balance	(28,435)	-	340,526	340,526
Fund Balance at beginning of year	377,876	377,876	377,876	-
Fund Balance at end of year	<u>\$ 349,441</u>	<u>\$ 377,876</u>	<u>\$ 718,402</u>	<u>\$ 340,526</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, 2019**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 239,000	\$ 681,410	\$ 697,755	\$ 16,345
Interest	650	1,175	1,220	45
	239,650	682,585	698,975	16,390
Expenditures:				
Public Works -				
Administration	20,100	20,000	20,000	-
Construction	127,635	846,220	866,092	(19,872)
Maintenance:				
Preservation	41,305	120,925	41,584	79,341
Winter maintenance	40,610	19,260	18,897	363
Total Expenditures	229,650	1,006,405	946,573	59,832
Revenues over (under) expenditures	10,000	(323,820)	(247,598)	76,222
Other Financing Sources (Uses):				
Transfers in	-	333,820	333,460	(360)
Transfers out	(10,000)	(10,000)	(10,000)	-
Total Other Financing Sources (Uses)	(10,000)	323,820	323,460	(360)
Net change in Fund Balance	-	-	75,862	75,862
Fund Balance at beginning of year	452,635	452,635	452,635	-
Fund Balance at end of year	\$ 452,635	\$ 452,635	\$ 528,497	\$ 75,862

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

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Intergovernmental	\$ 104,000	\$ 138,500	\$ 139,168	\$ 668
Expenditures:				
Public Works -				
Administration	9,050	9,000	9,000	-
Maintenance -				
Preservation	72,950	754,300	687,143	67,157
Winter maintenance	32,000	18,200	18,319	(119)
Total Expenditures	114,000	781,500	714,462	67,038
Revenues under expenditures	(10,000)	(643,000)	(575,294)	67,706
Other Financing Sources:				
Transfers in	10,000	643,000	642,870	(130)
Net change in Fund Balance	-	-	67,576	67,576
Fund Balance at beginning of year	163,374	163,374	163,374	-
Fund Balance at end of year	\$ 163,374	\$ 163,374	\$ 230,950	\$ 67,576

CITY OF DURAND, MICHIGAN

EMPLOYEES' RETIREMENT SYSTEM

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

	Year Ended December 31,			
	2018	2017	2016	2015
Total Pension Liability:				
Service Cost	\$ 72,295	\$ 79,980	\$ 68,923	\$ 62,727
Interest	492,302	492,500	441,239	410,095
Benefit changes	-	-	4,314	-
Differences between expected and actual experience	(88,516)	37,210	51,945	90,182
Changes in assumptions	-	-	-	281,396
Benefit payments, including refunds	(393,724)	(394,053)	(308,949)	(277,228)
Other charges	131	(15,763)	45,365	12,815
	<u>82,488</u>	<u>199,874</u>	<u>302,837</u>	<u>579,987</u>
Change in total pension liability				
Total pension liability, beginning of year	<u>6,316,133</u>	<u>6,116,259</u>	<u>5,813,422</u>	<u>5,233,435</u>
Total pension liability, end of year	<u>\$ 6,398,621</u>	<u>\$ 6,316,133</u>	<u>\$ 6,116,259</u>	<u>\$ 5,813,422</u>
Plan Fiduciary Net Position:				
Contributions - Employer	\$ 222,994	\$ 244,699	\$ 129,581	\$ 116,654
Contributions - Member	-	-	49,677	-
Net investment income	(162,555)	512,974	408,281	(56,167)
Benefit payments, including refunds	(393,724)	(394,053)	(308,949)	(277,228)
Administrative expenses	(8,161)	(8,133)	(8,073)	(8,329)
	<u>(341,446)</u>	<u>355,487</u>	<u>270,517</u>	<u>(225,070)</u>
Net change in plan fiduciary net position				
Plan fiduciary net position, beginning of year	<u>4,263,363</u>	<u>3,907,876</u>	<u>3,637,359</u>	<u>3,862,429</u>
Plan fiduciary net position, end of year	<u>\$ 3,921,917</u>	<u>\$ 4,263,363</u>	<u>\$ 3,907,876</u>	<u>\$ 3,637,359</u>
City's Net Pension Liability - Ending	<u>\$ 2,476,704</u>	<u>\$ 2,052,770</u>	<u>\$ 2,208,383</u>	<u>\$ 2,176,063</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	61.29%	67.50%	63.89%	62.57%
Covered Employee Payroll	\$ 932,427	\$ 1,028,857	\$ 913,272	\$ 766,312
City's Net Pension Liability as a Percentage of Covered Employee Payroll	265.6%	199.5%	241.8%	284.0%

* GASB Statement No. 68 was implemented for fiscal year ended June 30, 2015. The schedule is being built prospectively. Ultimately, ten years of data will be presented.

	<u>2014</u>
\$	57,941
	406,693
	-
	-
	-
(	263,680)
	-
	<u>200,954</u>
	<u>5,032,481</u>
\$	<u><u>5,233,435</u></u>

\$	144,260
	-
	235,100
(	263,680)
(	8,648)
	<u>107,032</u>
	<u>3,755,397</u>
\$	<u><u>3,862,429</u></u>
\$	<u><u>1,371,006</u></u>

73.80%

\$ 709,585

193.2%

CITY OF DURAND, MICHIGAN
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
CITY'S FISCAL YEARS

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

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percent of payroll, closed
Discount Rate	3.00%
Remaining amortization period	21 years
Asset valuation method	5 years smoothed market value
Salary Increases	1.00%
Investment Rate of Return	7.75%
Retirement age	Replacement Index up to 70, then 100%
Mortality	50% Male/50% Female blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, the RP-2014 Employee Mortality Tables and the RP-2014 Juvenile Mortality Tables. For disabled members, 50% Male/50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

* GASB Statement No. 68 was implemented for fiscal year ended June 30, 2015. The schedule is being built prospectively. Ultimately, ten years of data will be presented.

CITY OF DURAND, MICHIGAN

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

	2019	2018
Total OPEB Liability:		
Service cost	\$ 115,616	\$ 113,349
Interest	168,736	163,276
Differences between expected and actual experience	(189,616)	-
Changes in assumptions	172,941	-
Change in plan terms	(3,091,438)	-
Benefit payments, including refunds	(94,489)	(99,336)
	(2,918,250)	177,289
Change in total OPEB liability		
Total OPEB liability, beginning of year	5,556,151	5,378,862
Total OPEB liability, end of year	\$ 2,637,901	\$ 5,556,151
Plan Fiduciary Net Position:		
Contributions to OPEB trust	\$ 20,000	\$ 100,000
Contributions/benefit payments from operating funds	94,489	99,336
Net investment income	6,189	6,243
Benefit payments, including refunds	(94,489)	(99,336)
Administrative expenses	(236)	(220)
	25,953	106,023
Net change in plan fiduciary net position		
Plan fiduciary net position, beginning of year	106,023	-
Plan fiduciary net position, end of year	\$ 131,976	\$ 106,023
City's Net OPEB Liability - Ending	\$ 2,505,925	\$ 5,450,128
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	5.0%	1.9%
Covered Employee Payroll	\$ 505,318	\$ 439,576
City's Net OPEB Liability as a Percentage of Covered Employee Payroll	495.9%	1239.9%

* GASB Statement No. 75 was implemented for fiscal year ended June 30, 2018. These schedules are being built prospectively. Ultimately, 10 years will be presented.

CITY OF DURAND, MICHIGAN

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

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

Valuation Date: June 30, 2019

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar, prior years level percent of payroll
Discount Rate	3.00%
Salary Increases	3.50% in 2019, 2.00% in 2018.
Investment Rate of Return	3.34%
Mortality	Pub-2010 Public Retirement Plans Mortality Tables for Public Safety/General Employees, Healthy Retirees, and Disabled Members; Annuitant, Sex Distinct.
Health Care Trend Rates	2019: Medical premiums: Pre-Medicare, 8.5% graded down to 4.5% by 0.25% per year; Post-Medicare, 7% graded down to 4.5% by .25% per year 2018: 8.0% graded down to 5.0% over 6 years
Marital Status	70% will have covered spouse at retirement with females 3 years younger than males; actual spouse data used for retirees.

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

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

SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019

	Special Revenue Funds		Debt Service Funds	
	Building Inspection	Ambulance	Street Millage	2012 Water Bond Debt
Assets:				
Cash and cash equivalents	\$ 54	\$ 33,163	\$ 261	\$ 6,602
Receivables - accounts and interest	9,650	3,577	-	-
Total Assets	\$ 9,704	\$ 36,740	\$ 261	\$ 6,602
Liabilities:				
Accounts payable	\$ 631	\$ -	\$ -	\$ -
Deferred Inflows of Resources:				
Unavailable revenue	-	-	-	-
Fund Balances:				
Restricted	9,073	36,740	261	6,602
Committed	-	-	-	-
Total Fund Balances	9,073	36,740	261	6,602
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 9,704	\$ 36,740	\$ 261	\$ 6,602

Capital Project Fund	
<u>Sidewalks & Curbs</u>	<u>Total</u>
\$ 31,368	\$ 71,448
<u>1,673</u>	<u>14,900</u>
\$ 33,041	\$ 86,348
<u> -</u>	<u> 631</u>
<u> 1,673</u>	<u> 1,673</u>
-	52,676
<u>31,368</u>	<u>31,368</u>
<u>31,368</u>	<u>84,044</u>
<u>\$ 33,041</u>	<u>\$ 86,348</u>

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Special Revenue Funds		Debt Service Funds	
	Building Inspection	Ambulance	Street Millage	2012 Water Bond Debt
Revenues:				
Taxes	\$ -	\$ 82,834	\$ 245,406	\$ 226,389
Licenses and permits	30,795	-	-	-
Intergovernmental	-	1,279	-	4,586
Charges for services	6,305	-	-	-
Fines and forfeits	9,250	-	-	-
Special assessment	-	-	-	-
Interest	-	-	1,926	73
Other	-	5,833	-	-
Total Revenues	<u>46,350</u>	<u>89,946</u>	<u>247,332</u>	<u>231,048</u>
Expenditures:				
Current -				
Public Safety	45,560	-	-	-
Health and Welfare	-	76,906	-	-
Debt Service -				
Principal	-	-	275,000	276,000
Interest	-	-	28,071	5,510
Total Expenditures	<u>45,560</u>	<u>76,906</u>	<u>303,071</u>	<u>281,510</u>
Revenues over (under) expenditures	790	13,040	(55,739)	(50,462)
Other Financing Sources:				
Transfers in	<u>400</u>	<u>-</u>	<u>56,000</u>	<u>-</u>
Net change in Fund Balance	1,190	13,040	261	(50,462)
Fund Balances at beginning of year	<u>7,883</u>	<u>23,700</u>	<u>-</u>	<u>57,064</u>
Fund Balances at end of year	<u>\$ 9,073</u>	<u>\$ 36,740</u>	<u>\$ 261</u>	<u>\$ 6,602</u>

Capital Project Fund	
<u>Sidewalks & Curbs</u>	<u>Total</u>
\$ -	\$ 554,629
20	30,815
-	5,865
-	6,305
-	9,250
2,033	2,033
-	1,999
-	5,833
<u>2,053</u>	<u>616,729</u>
-	45,560
-	76,906
-	551,000
-	33,581
<u>-</u>	<u>707,047</u>
2,053	(90,318)
<u>-</u>	<u>56,400</u>
2,053	(33,918)
<u>29,315</u>	<u>117,962</u>
<u>\$ 31,368</u>	<u>\$ 84,044</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, 2019**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
BUILDING INSPECTION FUND				
Revenues:				
Licenses and permits	\$ 65,922	\$ 30,275	\$ 30,795	\$ 520
Charges for services	6,240	5,720	6,305	585
Fines and forfeits	12,000	10,750	9,250	(1,500)
Total Revenues	84,162	46,745	46,350	(395)
Expenditures:				
Public Safety	84,162	50,580	45,560	5,020
Revenues over (under) expenditures	-	(3,835)	790	4,625
Other Financing Sources:				
Transfers in	-	-	400	400
Net change in Fund Balance	-	(3,835)	1,190	5,025
Fund Balance at beginning of year	7,883	7,883	7,883	-
Fund Balance at end of year	\$ 7,883	\$ 4,048	\$ 9,073	\$ 5,025
AMBULANCE FUND				
Revenues:				
Taxes	\$ 83,000	\$ 83,000	\$ 82,834	\$(166)
Intergovernmental	-	1,280	1,279	(1)
Other	-	5,800	5,833	33
Total Revenues	83,000	90,080	89,946	(134)
Expenditures:				
Health and Welfare	83,000	90,080	76,906	13,174
Net change in Fund Balance	-	-	13,040	13,040
Fund Balance at beginning of year	23,700	23,700	23,700	-
Fund Balance at end of year	\$ 23,700	\$ 23,700	\$ 36,740	\$ 13,040

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2019**

	Employee Benefit	Equipment Revolving	Total
Assets:			
Current Assets -			
Cash and cash equivalents	\$ 443	\$ 298,180	\$ 298,623
Receivables	4,324	1,200	5,524
Inventory	-	2,091	2,091
Prepaid expenses	51,059	-	51,059
Total Current Assets	55,826	301,471	357,297
Capital Assets -			
Property, plant and equipment	-	3,076,442	3,076,442
Less - accumulated depreciation	-	(2,162,418)	(2,162,418)
Total Capital Assets, Net	-	914,024	914,024
Total Assets	55,826	1,215,495	1,271,321
Liabilities:			
Current Liabilities -			
Accounts payable	-	598	598
Accrued expenses	129	861	990
Interest payable	-	6,782	6,782
Bonds/Notes payable (current portion)	-	196,585	196,585
Total Current Liabilities	129	204,826	204,955
Long-term Liabilities -			
Accrued vacation and sick	49,185	190	49,375
Notes payable (net of current portion)	-	239,654	239,654
Total Long-term Liabilities	49,185	239,844	289,029
Total Liabilities	49,314	444,670	493,984
Net Position:			
Net investment in capital assets	-	477,785	477,785
Unrestricted	6,512	293,040	299,552
Total Net Position	\$ 6,512	\$ 770,825	\$ 777,337

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Employee Benefit	Equipment Revolving	Total
Operating Revenues:			
Charges for services	\$ 494,982	\$ 246,735	\$ 741,717
Other	28,110	1,781	29,891
Total Operating Revenues	523,092	248,516	771,608
Operating Expenses:			
Personal services	520,677	57,028	577,705
Administrative expenses	-	40,000	40,000
Supplies and postage	-	35,963	35,963
Other services	-	105,726	105,726
Depreciation	-	159,733	159,733
Total Operating Expenses	520,677	398,450	919,127
Operating income (loss)	2,415	(149,934)	(147,519)
Non-Operating (Expenses):			
Gain on sale of assets	-	9,500	9,500
Interest earned	-	431	431
Interest expense	-	(11,270)	(11,270)
Total Non-Operating Revenues (Expenses)	-	(1,339)	(1,339)
Net income (loss) before transfers	2,415	(151,273)	(148,858)
Transfers in	2,000	-	2,000
Change in Net Position	4,415	(151,273)	(146,858)
Net Position at beginning of year	2,097	922,098	924,195
Net Position at end of year	\$ 6,512	\$ 770,825	\$ 777,337

CITY OF DURAND, MICHIGAN

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Employee Benefit	Equipment Revolving	Total
Cash Flows From Operating Activities:			
Cash receipts from customers	\$ 25,695	\$ 581	\$ 26,276
Cash receipts from interfund services	494,982	246,735	741,717
Cash payments to suppliers	(549,104)	(143,088)	(692,192)
Cash payments to employees	13,169	(96,966)	(83,797)
Net Cash Provided by (Used in) Operating Activities	(15,258)	7,262	(7,996)
Cash Flows From Noncapital Financing Activities:			
Transfers from other fund	2,000	-	2,000
Cash Flows From Capital and Related Financing Activities:			
Bond/Note payments	-	(74,964)	(74,964)
Interest paid on long term debt	-	(12,650)	(12,650)
Proceeds from sale of capital assets	-	9,500	9,500
Acquisition and construction of capital assets	-	(46,569)	(46,569)
Net Cash Provided by (Used in) Capital and Related Financing Activities	-	(124,683)	(124,683)
Cash Flows From Investing Activities:			
Interest earned	-	431	431
Net Decrease in Cash and Cash Equivalents	(13,258)	(116,990)	(130,248)
Cash and Cash Equivalents at beginning of year	13,701	415,170	428,871
Cash and Cash Equivalents at end of year	\$ 443	\$ 298,180	\$ 298,623
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Operating income (loss)	\$ 2,415	\$(149,934)	\$(147,519)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -			
Depreciation	-	159,733	159,733
Change in assets and liabilities:			
Receivables	(2,415)	(1,200)	(3,615)
Prepays	(28,556)	-	(28,556)
Inventory	-	3	3
Accounts payable/accrued expenses	13,298	(1,340)	11,958
Net Cash Provided by (Used in) Operating Activities	\$(15,258)	\$ 7,262	\$(7,996)

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

CITY OF DURAND, MICHIGAN

**BALANCE SHEET/STATEMENT OF NET POSITION
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2019**

	<u>Operating Fund</u>	<u>GASB No. 34 Adjustments</u>	<u>Statement of Net Position</u>
Assets:			
Cash and cash equivalents	\$ 79,594	\$ -	\$ 79,594
Capital assets (net of accumulated depreciation) -			
Assets not being depreciated	-	60,000	60,000
Assets being depreciated	-	253,151	253,151
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 79,594</u>	<u>313,151</u>	<u>392,745</u>
Liabilities:			
Accounts payable	\$ 660	\$ -	\$ 660
Accrued interest	-	4,227	4,227
Non-current liabilities -			
Due within one year	-	55,000	55,000
Due in more than one year	-	545,000	545,000
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>660</u>	<u>604,227</u>	<u>604,887</u>
Fund Balance:			
Restricted - Wednesday Night Live	8,921	(8,921)	-
Assigned	7,087	(7,087)	-
Unassigned	62,926	(62,926)	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>78,934</u>	<u>(78,934)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 79,594</u>		
Net Position:			
Net investment in capital assets		223,151	223,151
Restricted		8,921	8,921
Unrestricted (deficit)		(444,214)	(444,214)
		<u> </u>	<u> </u>
Total Net Position		<u>\$(212,142)</u>	<u>\$(212,142)</u>

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET FOR
GOVERNMENTAL (OPERATING) FUND TO THE STATEMENT OF NET POSITION
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2019**

Fund Balances - total governmental funds	\$	78,934
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	(	265,886)
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	(	600,000)
Accrued interest payable	(	4,227)
Net Position of Downtown Development Authority	\$	<u><u>212,142</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, 2019**

	<u>Operating Fund</u>	<u>GASB No. 34 Adjustments</u>	<u>Statement of Activities</u>
Revenues:			
Taxes	\$ 74,325	\$ -	\$ 74,325
Intergovernmental	7,453	-	7,453
Other	7,550	-	7,550
	<u>89,328</u>	<u>-</u>	<u>89,328</u>
Expenditures/Expenses:			
Community and Economic Development	11,341	17,961	29,302
Debt Service -			
Principal	55,000	(55,000)	-
Interest	26,552	(330)	26,222
	<u>92,893</u>	<u>(37,369)</u>	<u>55,524</u>
Net change in Fund Balance/Net Position	(3,565)	37,369	33,804
Fund Balance/Net Position at beginning of year	<u>82,499</u>	<u>(328,445)</u>	<u>(245,946)</u>
Fund Balance/Net Position at end of year	<u>\$ 78,934</u>	<u>\$(291,076)</u>	<u>\$(212,142)</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, 2019**

Net change in fund balances - governmental funds	\$ (3,565)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(17,961)
The issuance of long-term debt provides current financial resources to the operating fund, while the repayment of the principal of long-term debt consumes the current resources of the operating fund. Neither transaction, however, has any effect on net position.	
Principal payments on long term liabilities	55,000
Decrease in accrued interest	<u>330</u>
Change in net position of Downtown Development Authority activities	<u>\$ 33,804</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, 2019**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 70,600	\$ 74,325	\$ 74,325	\$ -
Intergovernmental	-	7,450	7,453	3
Other	6,000	8,200	7,550	(650)
Total Revenues	<u>76,600</u>	<u>89,975</u>	<u>89,328</u>	<u>(647)</u>
Expenditures:				
Current -				
Community and Economic Development	12,725	11,465	11,341	124
Debt Service-				
Principal	55,000	55,000	55,000	-
Interest	26,652	26,555	26,552	3
Total Expenditures	<u>94,377</u>	<u>93,020</u>	<u>92,893</u>	<u>127</u>
Net Change in Fund Balance	(17,777)	(3,045)	(3,565)	(520)
Fund Balance at beginning of year	<u>82,499</u>	<u>82,499</u>	<u>82,499</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 64,722</u>	<u>\$ 79,454</u>	<u>\$ 78,934</u>	<u>\$(520)</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand (the "City"), as of and for the year ended June 30, 2019 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, 2019.

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.

A handwritten signature in black ink that reads "Stewart, Beavers & Whipple". The signature is written in a cursive, flowing style.

Certified Public Accountants

November 21, 2019

AUDIT COMMUNICATION LETTER

November 21, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand (the "City") for the year ended June 30, 2019, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated September 16, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Items

Qualitative Aspects of Accounting Practices

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

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

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

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

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

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

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

The disclosure of the custodial credit risk of deposits in Note 3 to the financial statements indicates the City holds \$5,001,919 of total deposits, of which \$1,084,455 was covered by depository insurance with the remaining balance of \$3,917,464 uninsured and uncollateralized.

The disclosure of the City's net pension liability and the related deferred outflows of resources, as reported in Note 9 to the financial statements. The net pension liability of the City is \$2,476,704.

The disclosure of the City's net OPEB liability in Note 10 to the financial statements describes benefits provided to retirees other than pensions. This disclosure is particularly sensitive to financial statement users because of the dollar amount of the liability at year-end and the future impact this number will have if the annual required contribution is not met in future years. The net OPEB liability of the City is \$2,505,925.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Assistance with GASB Statement No. 34 Presentation

As a result of our assistance with the GASB Statement No. 34 presentation, we proposed several entries, which include adjusting the net pension liability and net OPEB liability for the governmental activities to the June 30, 2019 account balances to reflect the differences between the governmental funds and the government-wide financial statements. These entries are described on pages 13 and 16 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, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

In addition to the Independent Auditor’s Report on Internal Control, we noted an item that, although is not considered to be a material weakness/significant deficiency, could improve controls, the operational efficiency, and/or compliance with laws and regulations. This item is discussed in Attachment A.

Other Matters

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

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

Restriction on Use

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

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



Certified Public Accountants

Attachment A

The following is an item that we discussed with administration that is not considered a significant deficiency, however, is an item that could improve controls, the operational efficiency of the accounting department, and/or compliance with laws and regulations.

All adjusting/miscellaneous journal entries should be approved by the City Manager.

It is our understanding that the City's procedures over journal entries include the City Manager's approval of all miscellaneous/adjusting journal entries, as evidenced by her signature on the print-out of the posted entry. During our testing over this area, we noted several entries that did not have the City Manager's signature. We recommend that, on a periodic basis, a system-generated print-out of all miscellaneous/adjusting entries be compared to the approved entries in the journal entry binder to ensure all miscellaneous/adjusting entries are approved.