
City of South Lyon, Michigan

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

City of South Lyon, Michigan

Financial Report

June 30, 2019

Mayor Daniel L. Pelchat

City Council

Margaret Kurtzweil, Mayor Pro Tem

Stephen Kennedy

Glenn Kivell

Mary Parisien

Carl Richards

Rose Walton

City Administration

City Manager

City Clerk/Treasurer

Fire Chief

Police Chief

Finance & Benefit Administrator

Paul Zelenak

Lisa Deaton

Robert Vogel

Chris Sovik

Patricia Tiernan

City of South Lyon, Michigan

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Independent Auditor's Report

To the Mayor and Members of the City Council
City of South Lyon, 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 South Lyon, 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 of South Lyon, Michigan's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of June 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Mayor and Members of the City Council
City of South Lyon, Michigan

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The statistical section schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Plante & Moran, PLLC

October 4, 2019

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

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2019:

- Revenue exceeded expenditures in the General Fund, thus increasing fund balance by approximately \$674,000. This was higher than the final amended budget, which expected an increase of approximately \$65,000.
- Total net position related to the City's governmental activities increased by approximately \$132,000.

Using this Annual Report

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

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

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$50,140,293 at the close of the most recent fiscal year.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The City's Net Position

The following table shows, in a condensed format, the net position as of June 30, 2019 and 2018:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 11,118,984	\$ 9,848,474	\$ 10,647,814	\$ 10,017,749	\$ 21,766,798	\$ 19,866,223
Capital assets	17,057,859	17,752,082	27,130,935	28,021,677	44,188,794	45,773,759
Total assets	28,176,843	27,600,556	37,778,749	38,039,426	65,955,592	65,639,982
Deferred Outflows of Resources	1,161,705	445,116	218,848	106,162	1,380,553	551,278
Liabilities						
Current liabilities	539,035	416,049	137,787	135,561	676,822	551,610
Noncurrent liabilities	6,009,003	4,732,736	10,231,628	11,178,547	16,240,631	15,911,283
Total liabilities	6,548,038	5,148,785	10,369,415	11,314,108	16,917,453	16,462,893
Deferred Inflows of Resources	229,892	467,898	48,507	113,062	278,399	580,960
Net Position						
Net investment in capital assets	16,935,991	17,456,896	18,028,556	17,899,298	34,964,547	35,356,194
Restricted	3,631,862	3,073,617	5,013,002	4,644,059	8,644,864	7,717,676
Unrestricted	1,992,765	1,898,476	4,538,117	4,175,061	6,530,882	6,073,537
Total net position	<u>\$ 22,560,618</u>	<u>\$ 22,428,989</u>	<u>\$ 27,579,675</u>	<u>\$ 26,718,418</u>	<u>\$ 50,140,293</u>	<u>\$ 49,147,407</u>

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The City's Changes in Net Position

The following table shows the changes in the net position during the years ended June 30, 2019 and 2018:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue						
Program revenue:						
Charges for services	\$ 700,100	\$ 609,228	\$ 3,305,000	\$ 3,126,571	\$ 4,005,100	\$ 3,735,799
Operating grants	1,071,974	1,127,480	-	-	1,071,974	1,127,480
Capital grants	36,685	32,635	365,400	189,917	402,085	222,552
General revenue:						
Taxes	4,496,278	4,231,954	1,074,760	1,127,871	5,571,038	5,359,825
Intergovernmental	1,254,182	1,038,095	-	-	1,254,182	1,038,095
Investment earnings	78,827	37,472	67,729	37,011	146,556	74,483
Other revenue	374,417	425,235	-	-	374,417	425,235
Total revenue	8,012,463	7,502,099	4,812,889	4,481,370	12,825,352	11,983,469
Expenses						
General government	1,629,680	1,503,587	-	-	1,629,680	1,503,587
Public safety	3,471,531	3,050,107	-	-	3,471,531	3,050,107
Community maintenance and development	2,357,699	2,322,647	-	-	2,357,699	2,322,647
Community and economic development	115,410	196,925	-	-	115,410	196,925
Recreation and culture	296,201	271,499	-	-	296,201	271,499
Debt service	10,313	22,336	-	-	10,313	22,336
Water and sewer	-	-	3,951,632	4,097,323	3,951,632	4,097,323
Total expenses	7,880,834	7,367,101	3,951,632	4,097,323	11,832,466	11,464,424
Change in Net Position	\$ 131,629	\$ 134,998	\$ 861,257	\$ 384,047	\$ 992,886	\$ 519,045

Governmental Activities

The City's total governmental expenses increased year over year by approximately \$514,000. The significant increase is due to increased costs related to the pension and OPEB plans.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides water distribution and sewage treatment to residents from the city-owned water supply and treatment facility. Expenses decreased by approximately \$146,000, as the City did not have any major repair and maintenance costs and lower than expected pension expenses in the current year.

Financial Analysis of Individual Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for discretionary use, as it represents the portion of the fund balance that has not yet been limited to use for a particular purpose by an external party. Uncommitted or unassigned fund balance provides further information about the resources that have not been constrained by either the City Council or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

Within these governmental funds, the General Fund is the most significant to understanding the City's financial activities. The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$2,620,000 in 2019. Other governmental services accounted for in the General Fund include general government, the department of public works, the fire department, and recreation. In addition, the Water and Sewer Fund is a significant enterprise activity for the City.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to account for changes made necessary due to unanticipated events or situations requiring the decrease of expenditures for operational and capital expenditures. The amended budget projected an approximate \$65,000 increase in fund balance. The actual increase of fund balance was approximately \$674,000.

Total General Fund revenue was approximately \$381,000 more than the amended budget primarily due to more licenses and permits than expected. General Fund expenditures were approximately \$228,000 less than the amended budget. Police expenditures, in particular, were approximately \$154,000 under budget due to lower-than-expected purchases of capital equipment and lower-than-expected employee-related expenditures.

Capital Assets and Debt Administration

At the end of 2019, the City had approximately \$44 million (after depreciation) invested in a broad range of capital assets, including buildings, roads, police and fire equipment, and water and sewer lines. Outstanding debt of the governmental and business-type activities totaled approximately \$9.2 million as of June 30, 2019. For additional information related to capital assets and debt, please see Notes 4 and 6, respectively.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year takes into consideration many factors anticipated to impact the budget. Among them are relatively flat property taxes, as taxable value (in both the housing and commercial markets) is projected to increase only slightly, and a decline in water and sewer sales. However, given our healthy fund balance, we do not anticipate any reductions in service levels based on potential revenue reductions. Over the years, the City has had the flexibility to adjust various ad valorem tax rates as necessary and as determined by Headlee, Truth in Taxation, and Proposal A. The statewide tax reform acts limit growth in taxable value to inflation or 5 percent, whichever is less. Inflation rates in recent years have ranged from 1.5 percent to 3.0 percent.

Requests for Further Information

This financial report is intended to provide a general overview of the City's finances and demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the city manager's office.

City of South Lyon, Michigan

Statement of Net Position

June 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents (Note 3)	\$ 9,722,587	\$ 4,626,521	\$ 14,349,108	\$ 9,520
Receivables:				
Customer receivables	108,367	1,013,335	1,121,702	-
Other receivables	12,678	-	12,678	-
Due from other governmental units	534,175	-	534,175	-
Internal balances	33,064	(33,064)	-	-
Prepaid expenses	164,169	28,020	192,189	-
Restricted assets (Note 1)	-	5,013,002	5,013,002	-
Investment in joint venture (Note 8)	490,944	-	490,944	-
Land held for resale	53,000	-	53,000	-
Capital assets: (Note 4)				
Assets not subject to depreciation	3,436,792	147,317	3,584,109	-
Assets subject to depreciation - Net	13,621,067	26,983,618	40,604,685	-
Total assets	28,176,843	37,778,749	65,955,592	9,520
Deferred Outflows of Resources - Deferred pension and OPEB costs (Notes 9 and 10)	1,161,705	218,848	1,380,553	-
Liabilities				
Accounts payable	143,055	63,206	206,261	925
Due to other governmental units	2,325	-	2,325	-
Cash bonds and deposits	237,045	-	237,045	-
Accrued liabilities and other	156,610	74,581	231,191	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 6)	152,000	32,500	184,500	-
Current portion of long-term debt (Note 6)	39,448	1,040,000	1,079,448	-
Due in more than one year:				
Compensated absences (Note 6)	152,038	32,514	184,552	-
Net pension liability (Note 10)	5,141,467	960,323	6,101,790	-
Net OPEB liability (Note 9)	441,630	103,912	545,542	-
Long-term debt (Note 6)	82,420	8,062,379	8,144,799	-
Total liabilities	6,548,038	10,369,415	16,917,453	925
Deferred Inflows of Resources - Deferred pension and OPEB cost reductions (Notes 9 and 10)	229,892	48,507	278,399	-
Net Position				
Net investment in capital assets	16,935,991	18,028,556	34,964,547	-
Restricted:				
Road improvements	2,809,596	-	2,809,596	-
Law enforcement	27,353	-	27,353	-
Cemetery	775,268	-	775,268	-
Parks and recreation capital improvements	19,645	-	19,645	-
Water and sewer replacement	-	5,013,002	5,013,002	-
Unrestricted	1,992,765	4,538,117	6,530,882	8,595
Total net position	\$ 22,560,618	\$ 27,579,675	\$ 50,140,293	\$ 8,595

City of South Lyon, Michigan

		Program Revenue			
		Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs					
Primary government:					
Governmental activities:					
General government	\$ 1,629,680	\$ 673,547	\$ 1,000	\$ -	
Public safety - Police, fire, and EMS	3,471,531	26,553	53	-	
Community maintenance and development	2,357,699	-	1,037,958	-	
Community and economic development	115,410	-	31,024	36,685	
Recreation and culture	296,201	-	1,939	-	
Interest on long-term debt	10,313	-	-	-	
Total governmental activities	7,880,834	700,100	1,071,974	36,685	
Business-type activities - Water and sewer	3,951,632	3,305,000	-	365,400	
Total primary government	<u>\$ 11,832,466</u>	<u>\$ 4,005,100</u>	<u>\$ 1,071,974</u>	<u>\$ 402,085</u>	
Component units - Downtown Development Authority	<u>\$ 73,950</u>	<u>\$ -</u>	<u>\$ 18,315</u>	<u>\$ -</u>	
General revenue:					
Property taxes					
Unrestricted state-shared revenue					
Unrestricted investment income					
Cable franchise fees					
Gain on sale of capital assets					
Income from joint venture					
Other miscellaneous income					
Total general revenue					
Change in Net Position					
Net Position - Beginning of year					
Net Position - End of year					

Statement of Activities

Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (955,133)	\$ -	\$ (955,133)	\$ -
(3,444,925)	-	(3,444,925)	-
(1,319,741)	-	(1,319,741)	-
(47,701)	-	(47,701)	-
(294,262)	-	(294,262)	-
(10,313)	-	(10,313)	-
(6,072,075)	-	(6,072,075)	-
-	(281,232)	(281,232)	-
(6,072,075)	(281,232)	(6,353,307)	-
-	-	-	(55,635)
4,496,278	1,074,760	5,571,038	41,425
1,254,182	-	1,254,182	-
78,827	67,729	146,556	243
125,951	-	125,951	-
18,000	-	18,000	-
22,700	-	22,700	-
207,766	-	207,766	-
6,203,704	1,142,489	7,346,193	41,668
131,629	861,257	992,886	(13,967)
22,428,989	26,718,418	49,147,407	22,562
\$ 22,560,618	\$ 27,579,675	\$ 50,140,293	\$ 8,595

City of South Lyon, Michigan

Governmental Funds Balance Sheet

June 30, 2019

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 3,945,802	\$ 5,776,785	\$ 9,722,587
Receivables:			
Customer receivables	108,367	-	108,367
Other receivables	12,678	-	12,678
Due from other governmental units	345,473	188,702	534,175
Due from other funds (Note 5)	70,137	12,509	82,646
Prepaid expenses	158,458	5,711	164,169
Land held for resale	-	53,000	53,000
Total assets	\$ 4,640,915	\$ 6,036,707	\$ 10,677,622
Liabilities			
Accounts payable	\$ 127,882	\$ 15,173	\$ 143,055
Due to other governmental units	2,007	318	2,325
Due to other funds	-	49,582	49,582
Cash bonds and deposits	237,045	-	237,045
Accrued liabilities and other	147,508	6,106	153,614
Total liabilities	514,442	71,179	585,621
Deferred Inflows of Resources - Unavailable revenue	178,843	-	178,843
Fund Balances			
Nonspendable:			
Land held for resale	-	53,000	53,000
Prepays	158,458	5,711	164,169
Restricted:			
Roads	-	2,803,885	2,803,885
Police	-	27,353	27,353
Cemetery perpetual care	-	775,268	775,268
Parks and recreation capital improvements	19,645	-	19,645
Committed:			
Capital improvements	168,993	1,782,504	1,951,497
Land acquisition	-	76,189	76,189
Equipment replacement	-	441,618	441,618
Unassigned	3,600,534	-	3,600,534
Total fund balances	3,947,630	5,965,528	9,913,158
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,640,915	\$ 6,036,707	\$ 10,677,622

City of South Lyon, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2019

Fund Balances Reported in Governmental Funds	\$ 9,913,158
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	17,057,859
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	178,843
Investments in joint ventures are not financial resources and are not reported in the funds	490,944
Debt obligations are not due and payable in the current period and are not reported in the funds	(121,868)
Accrued interest is not due and payable in the current period and is not reported in the funds	(2,996)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(304,038)
Pension benefits	(4,133,298)
Retiree healthcare benefits	(517,986)
Net Position of Governmental Activities	<u>\$ 22,560,618</u>

City of South Lyon, Michigan

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

Year Ended June 30, 2019

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 4,232,744	\$ 263,534	\$ 4,496,278
Intergovernmental:			
Federal grants	-	31,024	31,024
State and local sources:			
State-shared revenue	1,035,122	-	1,035,122
Act 51 gas and weight tax	-	1,012,609	1,012,609
Local Community Stabilization Authority	183,423	-	183,423
Metro act	-	30,289	30,289
Local grants and contributions	2,939	62,034	64,973
Charges for services	84,983	152,105	237,088
Fines and forfeitures	26,553	-	26,553
Licenses and permits	593,955	-	593,955
Investment income and other	30,741	95,089	125,830
Other revenue	210,376	-	210,376
Total revenue	6,400,836	1,646,684	8,047,520
Expenditures			
Current services:			
General government	1,528,576	-	1,528,576
Public safety	3,154,332	23,206	3,177,538
Community maintenance and development	777,236	557,703	1,334,939
Community and economic development	-	35,117	35,117
Recreation and culture	266,941	-	266,941
Capital outlay	-	419,302	419,302
Debt service	-	185,678	185,678
Total expenditures	5,727,085	1,221,006	6,948,091
Excess of Revenue Over Expenditures	673,751	425,678	1,099,429
Other Financing Sources (Uses)			
Transfers in	-	214,503	214,503
Transfers out	-	(214,503)	(214,503)
Sale of capital assets	-	18,000	18,000
Total other financing sources	-	18,000	18,000
Net Change in Fund Balances	673,751	443,678	1,117,429
Fund Balances - Beginning of year	3,273,879	5,521,850	8,795,729
Fund Balances - End of year	<u>\$ 3,947,630</u>	<u>\$ 5,965,528</u>	<u>\$ 9,913,158</u>

City of South Lyon, Michigan

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

Year Ended June 30, 2019

Net Change in Fund Balances Reported in Governmental Funds	\$ 1,117,429
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	751,126
Depreciation expense	(1,445,349)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	5,348
Change in investment in joint venture is not recorded in the governmental funds, but is recorded in the statement of activities	22,700
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	173,318
Interest expense is recognized in the government-wide statements as it accrues	2,047
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(494,990)
Change in Net Position of Governmental Activities	<u>\$ 131,629</u>

City of South Lyon, Michigan**Proprietary Fund - Water and Sewer Fund
Statement of Net Position****June 30, 2019****Assets**

Current assets:

Cash and cash equivalents (Note 3)	\$ 4,626,521
Receivables - Customer receivables	1,013,335
Prepaid expenses	28,020

Total current assets 5,667,876

Noncurrent assets:

Restricted assets (Note 1)	5,013,002
Capital assets: (Note 4)	
Assets not subject to depreciation	147,317
Assets subject to depreciation - Net	26,983,618

Total noncurrent assets 32,143,937

Total assets 37,811,813

Deferred Outflows of Resources - Deferred pension and OPEB costs (Notes 9 and 10)

218,848

Liabilities

Current liabilities:

Accounts payable	63,206
Due to other funds (Note 5)	33,064
Accrued liabilities and other	74,581
Compensated absences (Note 6)	32,500
Current portion of long-term debt (Note 6)	1,040,000

Total current liabilities 1,243,351

Noncurrent liabilities:

Compensated absences (Note 6)	32,514
Net pension liability (Note 10)	960,323
Net OPEB liability (Note 9)	103,912
Long-term debt (Note 6)	8,062,379

Total noncurrent liabilities 9,159,128

Total liabilities 10,402,479

Deferred Inflows of Resources - Deferred pension and OPEB cost reductions (Notes 9 and 10)

48,507

Net Position

Net investment in capital assets	18,028,556
Restricted - Water and sewer replacement	5,013,002
Unrestricted	4,538,117

Total net position **\$ 27,579,675**

City of South Lyon, Michigan**Proprietary Fund - Water and Sewer Fund
Statement of Revenue, Expenses, and Changes in Net Position****Year Ended June 30, 2019****Operating Revenue**

Sale of water	\$ 1,241,423
Sewage disposal charges	1,375,553
Refuse collection	530,367
Billing and collection charges	119,974
Other income	37,683

Total operating revenue 3,305,000

Operating Expenses

Salaries and wages	644,152
Fringe benefits	222,709
Equipment repair and maintenance	226,762
Public utilities	337,273
Refuse collection	512,715
Professional services	70,057
Insurance	29,199
Other	193,052
Depreciation	1,483,316

Total operating expenses 3,719,235

Operating Loss

(414,235)

Nonoperating Revenue (Expense)

Property tax revenue	1,074,760
Investment income	67,729
Interest expense	(232,397)

Total nonoperating revenue 910,092

Income - Before capital contributions

495,857

Capital Contributions - Tap-in fees

365,400

Change in Net Position

861,257

Net Position - Beginning of year

26,718,418

Net Position - End of year

\$ 27,579,675

City of South Lyon, Michigan**Proprietary Fund - Water and Sewer Fund
Statement of Cash Flows****Year Ended June 30, 2019****Cash Flows from Operating Activities**

Receipts from customers	\$ 3,197,009
Payments to suppliers	(1,350,747)
Payments to employees and fringes	(973,160)
Payments to other funds	(102,475)
Other receipts	631

Net cash and cash equivalents provided by operating activities 771,258

Cash Flows from Capital and Related Financing Activities

Collection of tap-in fees	365,400
Property taxes revenue received	1,074,760
Purchase of capital assets	(592,574)
Principal and interest paid on capital debt	(1,261,747)

Net cash and cash equivalents used in capital and related financing activities (414,161)

Cash Flows Provided by Investing Activities - Interest received on investments 67,729

Net Increase in Cash and Cash Equivalents 424,826

Cash and Cash Equivalents - Beginning of year 9,214,697

Cash and Cash Equivalents - End of year \$ 9,639,523

Classification of Cash and Cash Equivalents

Cash and investments	\$ 4,626,521
Restricted cash	5,013,002

Total cash and cash equivalents \$ 9,639,523

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (414,235)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	1,483,316
Changes in assets and liabilities:	
Receivables	(107,360)
Due to and from other funds	(102,475)
Prepaid and other assets	4,596
Accounts payable	13,715
Net pension or OPEB liability	84,406
Deferrals related to pension or OPEB	(177,241)
Accrued and other liabilities	(13,464)

Total adjustments 1,185,493

Net cash and cash equivalents provided by operating activities \$ 771,258

Note 1 - Significant Accounting Policies

Reporting Entity

The City of South Lyon, Michigan (the "City") is governed by an elected seven-member council. The accompanying 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.

Blended Component Units

The South Lyon Building Authority (the "Building Authority") is governed by a board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to acquire and lease property to the City.

Discretely Presented Component Unit

Downtown Development Authority

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the mayor and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report.

Accounting and Reporting Principles

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

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Note 1 - Significant Accounting Policies (Continued)

Fund Accounting

The City accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into two broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds. The City only reports the General Fund as a "major" governmental fund. The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The City reports only the Water and Sewer Fund as a "major" enterprise fund. The Water and Sewer Fund provides water to customers and disposes of sanitary sewage in exchange for user charges.

Interfund Activity

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

Basis of Accounting

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

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note 1 - Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: some state-shared revenue, some state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, some state-shared revenue will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

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

Specific Balances and Transactions**Cash and Cash Equivalents**

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

Prepaid Items

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

Restricted Assets

Restricted assets consist of cash and cash equivalents held for water and wastewater system improvements and equipment replacement. Included in this amount is a portion of water and sewer tap-in fees required by local ordinance to be restricted for improvements.

Capital Assets

Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

	Depreciable Life - Years
Wastewater treatment plant and equipment	10-40
Water treatment plant and equipment	10-40
Utility system, buildings, and improvements	7-40
Roads and sidewalks	20-25
Other tools, furniture, and equipment	15-40
Tools, furniture, and equipment	5-15
Office furnishings	5-7
Other tools and equipment	3-7

Note 1 - Significant Accounting Policies (Continued)

Long-term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond issuance costs are expensed at the time they are incurred. The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/ expenditure) until then. The government-wide statements and proprietary funds report deferred outflows related to the pension and OPEB plans, as detailed in Notes 9 and 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The government-wide statements and proprietary funds report deferred inflows related to the pension and OPEB plans, as detailed in Notes 9 and 10. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. The General Fund reports unavailable revenue from certain state-shared revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes, the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes, the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

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

Note 1 - Significant Accounting Policies (Continued)

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the city manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Properties are levied on July 1 and become an enforceable lien at that time. The tax is based on the taxable valuation of property as of the preceding December 31. Taxes are due on September 30 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

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

The 2018 taxable valuation of the City totaled \$359 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.2338 mills for operating purposes and 3.000 mills for debt service. This resulted in \$4.5 million for operating and \$1.1 million for debt service. These amounts are recognized in the respective general, capital projects, debt service, and enterprise fund financial statements as tax revenue.

Pension

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

Other Postemployment Benefit Costs

The City offers a monthly healthcare stipend to qualified retirees. The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. The City to date has not set aside any funds towards this liability; hence, the unfunded net OPEB liability is equal to the total OPEB liability calculated by the actuary.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay and vacation pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. Generally, the funds that report each employee's compensation (the General Fund, Major and Local Roads funds, and Water and Sewer Fund, primarily) are used to liquidate the obligations.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system, property taxes, and investment income. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

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

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2021.

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

June 30, 2019

Note 2 - Stewardship, Compliance, and Accountability***Excess of Expenditures Over Appropriations in Budgeted Funds***

During the year, the City incurred expenditures in the General Fund that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General government	\$ 1,402,836	\$ 1,528,576
Public transportation	78,926	85,289

General government and public transportation were over budget due to unexpected expenditures being charged to the City for services provided prior to June 30, 2019.

Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2018		\$ (1,175,945)
Current year permit revenue		463,996
Related expenses:		
Direct costs	\$ 407,227	
Estimated indirect costs	14,095	421,322
Current year surplus		42,674
Cumulative shortfall June 30, 2019		<u>\$ (1,133,271)</u>

Note 3 - Deposits and Investments

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

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs and such obligations, bonds, and securities permitted by the statutes of the State of Michigan.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$18,516,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The component unit did not have any bank deposits that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

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

Governmental Activities

	Balance July 1, 2018	Additions	Disposals and Reclassifications	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 3,208,433	\$ 228,359	\$ -	\$ 3,436,792
Construction in progress	9,379	-	(9,379)	-
Subtotal	3,217,812	228,359	(9,379)	3,436,792
Capital assets being depreciated:				
Roads and sidewalks	23,751,034	40,060	-	23,791,094
Buildings and improvements	9,265,641	67,130	9,379	9,342,150
Other tools, furniture, and equipment	5,658,887	415,577	(39,188)	6,035,276
Subtotal	38,675,562	522,767	(29,809)	39,168,520
Accumulated depreciation:				
Roads and sidewalks	14,995,380	873,081	-	15,868,461
Buildings and improvements	4,648,446	302,756	-	4,951,202
Other tools, furniture, and equipment	4,497,466	269,512	(39,188)	4,727,790
Subtotal	24,141,292	1,445,349	(39,188)	25,547,453
Net governmental activities capital assets being depreciated	14,534,270	(922,582)	9,379	13,621,067
Net governmental activities capital assets	\$ 17,752,082	\$ (694,223)	\$ -	\$ 17,057,859

June 30, 2019

Note 4 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2018	Additions	Disposals and Reclassifications	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 147,317	\$ -	\$ -	\$ 147,317
Construction in progress	31,099	-	(31,099)	-
Subtotal	178,416	-	(31,099)	147,317
Capital assets being depreciated:				
Wastewater treatment plant and equipment	33,684,544	113,125	-	33,797,669
Water treatment plant and equipment	3,093,037	79,114	-	3,172,151
Utility systems, buildings, and improvements	17,969,056	394,617	31,099	18,394,772
Other tools, furniture, and equipment	1,352,769	5,718	-	1,358,487
Subtotal	56,099,406	592,574	31,099	56,723,079
Accumulated depreciation - Total water and sewer	28,256,145	1,483,316	-	29,739,461
Net business-type activities capital assets being depreciated	27,843,261	(890,742)	31,099	26,983,618
Net business-type activities capital assets	<u>\$ 28,021,677</u>	<u>\$ (890,742)</u>	<u>\$ -</u>	<u>\$ 27,130,935</u>

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

Governmental activities:	
General government	\$ 119,001
Public safety	157,180
Public works	1,116,110
Recreation and culture	53,058
Total governmental activities	<u>\$ 1,445,349</u>
Business-type activities - Water and sewer	<u>\$ 1,483,316</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 29,869
	Nonmajor governmental funds	40,268
	Total General Fund	70,137
Nonmajor governmental funds	Water and Sewer Fund	3,195
	Nonmajor governmental funds	9,314
	Total nonmajor governmental funds	12,509
	Total	<u>\$ 82,646</u>

June 30, 2019

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

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

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

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
Nonmajor governmental funds	Nonmajor governmental funds	\$ 214,503

The transfers relate to two transfers into the Land Acquisition Fund. The Capital Improvement Fund transferred \$205,859 for the purchase of land. The Building Authority Fund transferred \$8,644 in excess funds.

Note 6 - Long-term Debt

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements - Installment purchase agreements	\$ 160,186	\$ -	\$ (38,318)	\$ 121,868	\$ 39,448
Other debt - General obligations	135,000	-	(135,000)	-	-
Compensated absences	347,226	160,288	(203,476)	304,038	152,000
Total governmental activities long-term debt	<u>\$ 642,412</u>	<u>\$ 160,288</u>	<u>\$ (376,794)</u>	<u>\$ 425,906</u>	<u>\$ 191,448</u>

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements:					
General obligations	\$ 7,902,379	\$ -	\$ (905,000)	\$ 6,997,379	\$ 925,000
Revenue bonds	2,220,000	-	(115,000)	2,105,000	115,000
Total direct borrowings and direct placements principal outstanding	10,122,379	-	(1,020,000)	9,102,379	1,040,000
Compensated absences	76,339	31,294	(42,619)	65,014	32,500
Total business-type activities long-term debt	<u>\$ 10,198,718</u>	<u>\$ 31,294</u>	<u>\$ (1,062,619)</u>	<u>\$ 9,167,393</u>	<u>\$ 1,072,500</u>

Note 6 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. General obligations outstanding at June 30, 2019 are as follows:

Purpose	Year Issued	Interest Rates	Maturing	Outstanding
Governmental Activities				
Installment Purchase Agreement	2016	2.91	2022	\$ 121,868
Business-type Activities				
State of Michigan Revolving Fund	2003	2.5	2025	\$ 6,997,379

Revenue Bonds

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Business-type activities utilize revenue bonds to finance the water and sewer system. During fiscal year 2013, the City issued revenue bonds in the amount of \$5,300,000. These bonds are funded by the Drinking Water Revolving Fund, and the City received a loan forgiveness to the extent of \$2,650,000. The City has pledged substantially all revenue generated through the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water and sewer system. The remaining principal and interest to be paid on the bonds is \$2,550,375. During the current year, operating income of the system (excluding depreciation) was \$1,069,081.

Purpose	Year Issued	Interest Rates	Maturing	Outstanding
Business-type Activities				
Drinking Water Revolving Fund Program #7314-01	2013	2.5	2034	\$ 2,105,000

June 30, 2019

Note 6 - Long-term Debt (Continued)***Debt Service Requirements to Maturity***

Total interest expense for the year related to governmental activities for the year was approximately \$11,400. Total interest incurred related to business-type activities for the year approximated \$232,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Direct Borrowings and Direct Placements			Direct Borrowings and Direct Placements		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 39,448	\$ 3,594	\$ 43,042	\$ 1,040,000	\$ 215,397	\$ 1,255,397
2021	40,611	2,431	43,042	1,070,000	189,078	1,259,078
2022	41,809	1,233	43,042	1,100,000	162,616	1,262,616
2023	-	-	-	1,125,000	134,809	1,259,809
2024	-	-	-	1,155,000	106,372	1,261,372
2025-2029	-	-	-	2,822,379	205,339	3,027,718
Thereafter	-	-	-	790,000	60,125	850,125
Total	\$ 121,868	\$ 7,258	\$ 129,126	\$ 9,102,379	\$ 1,073,736	\$ 10,176,115

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for workers' compensation, medical, health, life, and disability claims, and participates in the Michigan Municipal Risk Management Authority's state pool for claims relating to general law enforcement, emergency medical, public errors and omissions, and auto liabilities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program (the "Authority") operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 8 - Joint Ventures

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC) and the South Lyon Area Recreation Authority (SLARA). RRRASOC is incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom, Michigan; the Village of Milford, Michigan; and the Charter Township of Milford. SLARA is incorporated by the City of South Lyon, Michigan and the charter townships of Lyon and Green Oak. The City appoints one member to each of the joint ventures' governing boards, which then approve the annual budgets. The joint ventures receive their operating revenue from member contributions and miscellaneous income.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for RRRASOC can be obtained from RRRASOC's office at 20000 West 8 Mile Road, Southfield, MI 48075 and for SLARA at SLARA's office at 318 W. Lake Street, South Lyon, MI 48178.

During the year, the City contributed \$18,960 to RRRASOC and \$25,153 to SLARA. The City reported equity interest in SLARA of \$490,944 as of June 30, 2019.

Note 9 - Other Postemployment Benefit Plan

Plan Description

The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with established labor contracts. Under terms of the contracts, the City provides a flat monthly stipend up to age 65 to be used to supplement insurance costs incurred for postemployment healthcare benefits. The benefits are provided through a single-employer plan administered by the South Lyon City Council. No assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

All employees retiring under regular (normal), work-related disability, or workers' compensation retirement are eligible to receive a stipend for healthcare coverage until age 65. Police regular (normal) retirees are required to have 25 years of service to be eligible for the employer stipend. General retirees have no service requirement. Eligible police retirees receive a stipend of up to \$700 per month for healthcare premiums. Eligible general retirees receive a stipend of up to \$500 per month for healthcare insurance premiums. To the extent the stipend exceeds the monthly healthcare premiums, the remainder may be used to offset spousal healthcare insurance premiums.

Employees Covered by Benefit Terms

The following members were covered by the contractual benefit terms:

Date of member count	June 30, 2018
Inactive plan members or beneficiaries currently receiving benefits	1
Active plan members	40
Total plan members	41

Contributions

Retiree healthcare costs are funded by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment, except for new employees hired after July 1, 2018. For the fiscal year ended June 30, 2019, the City paid postemployment healthcare stipends of \$13,622.

Total OPEB Liability

The City has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability. The June 30, 2019 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability as of the June 30, 2019 measurement date. The June 30, 2019 total OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, which used updated procedures to roll forward the estimated liability to June 30, 2019.

Note 9 - Other Postemployment Benefit Plan (Continued)

Changes in the total OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at July 1, 2018	\$ 464,775	\$ -	\$ 464,775
Changes for the year:			
Service cost	23,545	-	23,545
Interest	18,637	-	18,637
Differences between expected and actual experience	38,510	-	38,510
Changes in assumptions	13,697	-	13,697
Contributions - Employer	-	13,622	(13,622)
Benefit payments, including refunds	(13,622)	(13,622)	-
Net changes	80,767	-	80,767
Balance at June 30, 2019	<u>\$ 545,542</u>	<u>\$ -</u>	<u>\$ 545,542</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$29,205.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 35,009	\$ (133,886)
Changes in assumptions	12,452	(7,897)
Total	<u>\$ 47,461</u>	<u>\$ (141,783)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	Amount
2020	\$ (12,977)
2021	(12,977)
2022	(12,977)
2023	(12,977)
2024	(12,977)
Thereafter	(29,437)
Total	<u>\$ (94,322)</u>

June 30, 2019

Note 9 - Other Postemployment Benefit Plan (Continued)**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, which used updated procedures to roll forward the estimated liability to June 30, 2019. The June 30, 2018 actuarial valuation used an inflation assumption of 3.75 percent; a healthcare cost trend rate of 8.5 percent for 2020, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent for 2028 and later years; and the RPH-2017 total dataset mortality table. In addition, 100 percent of active employees currently receiving health care through the City were assumed to elect retiree coverage. These assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.51 percent; however, the discount rate used to measure the total OPEB liability at the beginning of the year was 3.87 percent. The discount rate was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.51 percent, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (2.51%)	Current Discount Rate (3.51%)	1 Percent Increase (4.51%)
Total OPEB liability of the plan	\$ 584,951	\$ 545,542	\$ 508,153

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the City, calculated using the healthcare cost trend rate of 8.5 percent, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.5%) Decreasing to 3.5%)	Current Healthcare Cost Trend Rate (8.5%) Decreasing to 4.5%)	1 Percent Increase (9.5%) Decreasing to 5.5%)
Total OPEB liability of the plan	\$ 500,395	\$ 545,542	\$ 597,273

Note 10 - Pension Plan**Plan Description**

The City of South Lyon, Michigan participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers all full-time employees of the City. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Note 10 - Pension Plan (Continued)

Benefits Provided

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

The MERS plan covers full-time employees at the City, including AFSCME, nonunion, police, patrolmen, police command, and clerical employees. The MERS defined benefit plan is closed to new entrants. New employees are eligible to participate in the MERS defined contribution plus plan.

Retirement benefits are calculated as 2.5 percent of the employee's final five-year average compensation times the employee's years of service, with a maximum of 80 percent of final average compensation. Normal retirement age is 60 with early retirement at an unreduced benefit at age 55 with 25 years of service or a reduced benefit at age 50 with 25 years of service or age 55 with 15 years of service. Deferred retirement benefits vest after 10 years of credited service (eight years for nonunion employees), but are not paid until the date retirement would have occurred had the member remained an employee. Employees are eligible for nonduty disability benefits after 10 years of service (eight years for nonunion employees) and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately and, if duty-related, without the application of an actuarial reduction for retirement before age 60. An employee who leaves city service may withdraw his or her contributions, plus any accumulated interest.

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

Employees Covered by Benefit Terms

At the December 31, 2018 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	30
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	37
	<hr/>
Total employees covered by the plan	75
	<hr/>

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. MERS hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City's required contribution is determined after consideration of the required contribution rate of employees. For the year ended June 30, 2019, the average active employee contribution rate was 1.75 percent of annual pay. The City pays a flat amount each month for its required contribution, except for the command division. Monthly payment amounts for the various divisions range from \$3,011 to \$15,856 per month plus an amount for the command division contribution at a rate of 21.15 percent.

Net Pension Liability

The City has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The June 30, 2019 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2018 measurement date. The December 31, 2018 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

June 30, 2019

Note 10 - Pension Plan (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2017	\$ 15,905,023	\$ 11,299,645	\$ 4,605,378
Changes for the year:			
Service cost	268,288	-	268,288
Interest	1,257,029	-	1,257,029
Changes in benefits	(656)	-	(656)
Differences between expected and actual experience	106,840	-	106,840
Contributions - Employer	-	559,154	(559,154)
Contributions - Employee	-	45,616	(45,616)
Net investment income	-	(447,680)	447,680
Benefit payments, including refunds	(652,600)	(652,600)	-
Administrative expenses	-	(22,001)	22,001
Net changes	978,901	(517,511)	1,496,412
Balance at December 31, 2018	<u>\$ 16,883,924</u>	<u>\$ 10,782,134</u>	<u>\$ 6,101,790</u>

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 \$1,016,522. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 80,130	\$ (136,616)
Changes in assumptions	141,488	-
Net difference between projected and actual earnings on pension plan investments	815,565	-
Employer contributions to the plan subsequent to the measurement date	295,909	-
Total	<u>\$ 1,333,092</u>	<u>\$ (136,616)</u>

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

Years Ending June 30	Amount
2020	\$ 383,284
2021	81,115
2022	166,396
2023	269,772
Total	<u>\$ 900,567</u>

June 30, 2019

Note 10 - Pension Plan (Continued)**Actuarial Assumptions**

The total pension liability in the December 31, 2018 actuarial valuation was determined using an inflation assumption of 2.50 percent, assumed salary increases (including inflation) of 3.75 percent, an investment rate of return (gross of investment expenses) of 8.00 percent, and the RP-2014 mortality tables. These assumptions were applied to all periods included in the measurement and are based on an experience study conducted for the period from 2009-2013.

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 employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

Investment Rate of Return

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.15 %
Global fixed income	18.50	1.26
Real assets	13.50	7.22
Diversifying strategies	12.50	5.00

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

The following presents the net pension liability of the City, calculated using the discount rate of 8.0 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the City	\$ 8,128,315	\$ 6,101,790	\$ 4,381,619

June 30, 2019

Note 10 - Pension Plan (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at www.mersofmich.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 11 - Tax Abatements

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50 percent of the property tax bill for new property (or it can freeze taxable values for rehabilitation properties) for up to 12 years.

For the fiscal year ended June 30, 2019, the City abated \$11,363 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

Required Supplemental Information

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,233,844	\$ 4,233,844	\$ 4,232,744	\$ (1,100)
Intergovernmental	1,122,177	1,141,314	1,221,484	80,170
Charges for services	79,000	79,000	84,983	5,983
Fines and forfeitures	30,750	30,750	26,553	(4,197)
Licenses and permits	379,000	379,000	593,955	214,955
Investment income and other	5,500	5,500	30,741	25,241
Other revenue	150,300	150,300	210,376	60,076
Total revenue	6,000,571	6,019,708	6,400,836	381,128
Expenditures				
Current services:				
General government	1,402,836	1,402,836	1,528,576	(125,740)
Public safety:				
Police	2,778,149	2,778,149	2,624,500	153,649
Fire	640,169	659,306	529,752	129,554
Ambulance	1,180	1,180	80	1,100
Community maintenance and development:				
Public works	739,412	739,412	715,885	23,527
Cemetery	68,640	68,640	61,351	7,289
Recreation and culture:				
Parks and recreation	189,857	189,857	152,877	36,980
Cable	4,025	4,025	3,942	83
Historical	28,495	28,495	23,568	4,927
Cultural arts	3,875	3,875	1,265	2,610
Public transportation	78,926	78,926	85,289	(6,363)
Total expenditures	5,935,564	5,954,701	5,727,085	227,616
Net Change in Fund Balance	65,007	65,007	673,751	608,744
Fund Balance - Beginning of year	3,273,879	3,273,879	3,273,879	-
Fund Balance - End of year	<u>\$ 3,338,886</u>	<u>\$ 3,338,886</u>	<u>\$ 3,947,630</u>	<u>\$ 608,744</u>

City of South Lyon, Michigan

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

Last Five Fiscal Years
(schedule is built prospectively upon implementation of GASB 68)

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 268,288	\$ 274,113	\$ 283,687	\$ 256,313	\$ 255,907
Interest	1,257,029	1,199,100	1,141,285	1,064,707	1,004,596
Changes in benefit terms	(656)	(6,932)	(270)	-	-
Differences between expected and actual experience	106,840	(117,223)	(113,562)	(104,289)	-
Changes in assumptions	-	-	-	707,441	-
Benefit payments, including refunds	(652,600)	(591,459)	(575,867)	(578,810)	(485,354)
Net Change in Total Pension Liability	978,901	757,599	735,273	1,345,362	775,149
Total Pension Liability - Beginning of year	15,905,023	15,147,424	14,412,151	13,066,789	12,291,640
Total Pension Liability - End of year	\$ 16,883,924	\$ 15,905,023	\$ 15,147,424	\$ 14,412,151	\$ 13,066,789
Plan Fiduciary Net Position					
Contributions - Employer	\$ 559,154	\$ 529,687	\$ 470,446	\$ 420,267	\$ 417,111
Contributions - Employee	45,616	34,784	29,301	27,094	27,802
Net investment (loss) income	(447,680)	1,332,498	1,035,110	(140,969)	562,278
Administrative expenses	(22,001)	(21,070)	(20,433)	(20,522)	(20,698)
Benefit payments, including refunds	(652,600)	(591,459)	(575,867)	(578,810)	(485,354)
Net Change in Plan Fiduciary Net Position	(517,511)	1,284,440	938,557	(292,940)	501,139
Plan Fiduciary Net Position - Beginning of year	11,299,645	10,015,205	9,076,648	9,369,588	8,868,449
Plan Fiduciary Net Position - End of year	\$ 10,782,134	\$ 11,299,645	\$ 10,015,205	\$ 9,076,648	\$ 9,369,588
City's Net Pension Liability - Ending	\$ 6,101,790	\$ 4,605,378	\$ 5,132,219	\$ 5,335,503	\$ 3,697,201
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.86 %	71.04 %	66.12 %	62.98 %	71.71 %
Covered Payroll	\$ 2,588,286	\$ 2,643,114	\$ 2,725,500	\$ 2,533,242	\$ 2,528,331
City's Net Pension Liability as a Percentage of Covered Payroll	235.75 %	174.24 %	188.30 %	210.62 %	146.23 %

City of South Lyon, Michigan

Required Supplemental Information Schedule of Pension Contributions

Last Ten Fiscal Years
Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 586,762	\$ 549,604	\$ 501,517	\$ 435,641	\$ 410,024	\$ 405,981	\$ 386,618	\$ 388,304	\$ 372,715	\$ 358,241
Contributions in relation to the actuarially determined contribution	586,762	549,604	501,517	435,641	410,024	405,981	386,618	388,304	372,715	358,241
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,588,286	\$ 2,643,114	\$ 2,725,500	\$ 2,533,242	\$ 2,528,331	\$ 2,472,858	\$ 2,673,263	\$ 2,666,459	\$ 2,713,288	\$ 2,868,101
Contributions as a Percentage of Covered Payroll	22.67 %	20.79 %	18.40 %	17.20 %	16.22 %	16.42 %	14.46 %	14.56 %	13.74 %	12.49 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date

Actuarially determined contribution rates are calculated as of December 31, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	20 years
Asset valuation method	Five-year smoothed market
Inflation	3-4 percent
Salary increase	3.75 percent average, including inflation
Investment rate of return - Net of administrative expenses	7.75 percent
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50 percent male - 50 percent female blend of the 2014 Group Annuity Mortality Table
Other information	None

City of South Lyon, Michigan**Required Supplemental Information**
Schedule of Changes in the Total OPEB Liability and Related Ratios
No Trust**Last Two Fiscal Years**
(schedule is built prospectively upon implementation of GASB 75)

	2019	2018
Total OPEB Liability		
Service cost	\$ 23,545	\$ 28,001
Interest	18,637	21,877
Differences between expected and actual experience	38,510	(167,358)
Changes in assumptions	13,697	(9,871)
Benefit payments, including refunds	(13,622)	(9,000)
Net Change in Total OPEB Liability	80,767	(136,351)
Total OPEB Liability - Beginning of year	464,775	601,126
Total OPEB Liability - End of year	\$ 545,542	\$ 464,775
Covered Employee Payroll	\$ 2,705,916	\$ 2,566,424
Total OPEB Liability as a Percentage of Covered Employee Payroll	20.16 %	18.11 %

City of South Lyon, Michigan

Required Supplemental Information Schedule of OPEB Contributions

Last Two Fiscal Years
(schedule is built prospectively upon implementation of GASB 75)
Years Ended June 30

	2019	2018*
Actuarially determined contribution	\$ 61,253	\$ -
Contributions in relation to the actuarially determined contribution	-	-
Contribution Deficiency	\$ (61,253)	\$ -
Covered Employee Payroll	\$ 2,705,916	\$ 2,566,424
Contributions as a Percentage of Covered Employee Payroll	- %	- %

*No actuarially determined contribution was calculated for fiscal year ended June 30, 2018.

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal level percent of salary
Amortization method	Level dollar amortization - Closed
Remaining amortization period	30 years
Asset valuation method	Market value
Inflation	3.75 percent
Healthcare cost trend rates	Non-Medicare: 8.50 percent decreasing 0.25 percent per year to a 4.50 percent long-term rate Medicare: 7.00 percent decreasing 0.25 percent per year to a 4.50 percent long-term rate
Salary increase	3.50 percent
Investment rate of return	3.00 percent
Mortality	RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 (RPH-2017 table is created based on RPH-2014 Total Dataset Mortality Table with 11 years of MP-2017 mortality improvement backed out, projected to 2017 using MP-2017 improvement)

June 30, 2019

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds.

The annual budget is prepared by the city manager and submitted to the City Council at its meeting nearest the third Monday in April of each year. The budget is adopted by the City Council no later than the second regular City Council meeting in May. Subsequent amendments are approved by the City Council. Amendments may be made by the City Council up until the last day of the fiscal year. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2019 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund is presented as required supplemental information. Information comparing other special revenue funds activity to the respective budgets can be obtained at City Hall.

OPEB Information

Changes in Assumptions

June 30, 2019 - The beginning of year total OPEB liability was based on a single discount rate of 3.87 percent, and the end of year total OPEB liability was based on a single discount rate of 3.51 percent.

Other Supplemental Information

City of South Lyon, Michigan

	Special Revenue Funds				
	Major Road	Local Road	Drug Forfeiture	Cemetery Perpetual Care	Community Development Block Grant
Assets					
Cash and investments	\$ 2,278,710	\$ 381,428	\$ 27,353	\$ 775,268	\$ -
Receivables - Due from other governmental units	110,100	47,578	-	-	31,024
Due from other funds	9,314	3,195	-	-	-
Prepaid expenses	3,711	2,000	-	-	-
Land held for resale	-	-	-	-	-
Total assets	\$ 2,401,835	\$ 434,201	\$ 27,353	\$ 775,268	\$ 31,024
Liabilities					
Accounts payable	\$ 1,444	\$ 332	\$ -	\$ -	\$ -
Due to other governmental units	-	-	-	-	-
Due to other funds	4,843	13,715	-	-	31,024
Accrued liabilities and other	3,068	3,038	-	-	-
Total liabilities	9,355	17,085	-	-	31,024
Fund Balances					
Nonspendable:					
Land held for resale	-	-	-	-	-
Prepays	3,711	2,000	-	-	-
Restricted:					
Roads	2,388,769	415,116	-	-	-
Police	-	-	27,353	-	-
Cemetery perpetual care	-	-	-	775,268	-
Committed:					
Capital improvements	-	-	-	-	-
Land acquisition	-	-	-	-	-
Equipment replacement	-	-	-	-	-
Total fund balances	2,392,480	417,116	27,353	775,268	-
Total liabilities and fund balances	\$ 2,401,835	\$ 434,201	\$ 27,353	\$ 775,268	\$ 31,024

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2019

Debt Service Fund	Capital Project Funds			Total Nonmajor Governmental Funds
Building Authority	Capital Improvement	Equipment Replacement	Land Acquisition	
\$ -	\$ 1,782,822	\$ 455,015	\$ 76,189	\$ 5,776,785
-	-	-	-	188,702
-	-	-	-	12,509
-	-	-	-	5,711
-	-	-	53,000	53,000
<u>\$ -</u>	<u>\$ 1,782,822</u>	<u>\$ 455,015</u>	<u>\$ 129,189</u>	<u>\$ 6,036,707</u>
\$ -	\$ -	\$ 13,397	\$ -	\$ 15,173
-	318	-	-	318
-	-	-	-	49,582
-	-	-	-	6,106
-	318	13,397	-	71,179
-	-	-	53,000	53,000
-	-	-	-	5,711
-	-	-	-	2,803,885
-	-	-	-	27,353
-	-	-	-	775,268
-	1,782,504	-	-	1,782,504
-	-	-	76,189	76,189
-	-	441,618	-	441,618
-	1,782,504	441,618	129,189	5,965,528
<u>\$ -</u>	<u>\$ 1,782,822</u>	<u>\$ 455,015</u>	<u>\$ 129,189</u>	<u>\$ 6,036,707</u>

City of South Lyon, Michigan

	Special Revenue Funds				
	Major Road	Local Road	Drug Forfeiture	Cemetery Perpetual Care	Community Development Block Grant
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:					
Federal grants	-	-	-	-	31,024
State and local sources:					
Act 51 gas and weight tax	701,906	310,703	-	-	-
Metro act	30,289	-	-	-	-
Local grants and contributions	-	25,349	-	-	-
Charges for services	-	-	-	-	-
Investment income and other	24,520	3,376	336	39,029	-
Total revenue	756,715	339,428	336	39,029	31,024
Expenditures					
Current services:					
Public safety	-	-	23,206	-	-
Community maintenance and development:					
Streets	248,539	247,576	-	-	-
Stormwater drainage	8,207	8,250	-	-	-
Other professional services	-	-	-	-	-
Cemetery	-	-	-	42,851	-
Community and economic development	-	-	-	-	31,024
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-
Total expenditures	256,746	255,826	23,206	42,851	31,024
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Total other financing (uses) sources	-	-	-	-	-
Net Change in Fund Balances	499,969	83,602	(22,870)	(3,822)	-
Fund Balances - Beginning of year	1,892,511	333,514	50,223	779,090	-
Fund Balances - End of year	\$ 2,392,480	\$ 417,116	\$ 27,353	\$ 775,268	\$ -

Other Supplemental Information

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

Nonmajor Governmental Funds

Year Ended June 30, 2019

Debt Service Fund		Capital Project Funds			Total Nonmajor Governmental Funds
Building Authority	Capital Improvement	Equipment Replacement	Land Acquisition		
\$ 85,461	\$ 178,073	\$ -	\$ -	\$ 263,534	
-	-	-	-	31,024	
-	-	-	-	1,012,609	
-	-	-	-	30,289	
36,685	-	-	-	62,034	
-	-	152,105	-	152,105	
571	11,066	3,542	12,649	95,089	
122,717	189,139	155,647	12,649	1,646,684	
-	-	-	-	23,206	
-	-	-	-	496,115	
-	-	-	-	16,457	
-	2,280	-	-	2,280	
-	-	-	-	42,851	
-	-	-	4,093	35,117	
-	33,214	151,029	235,059	419,302	
135,000	-	38,318	-	173,318	
7,636	-	4,724	-	12,360	
142,636	35,494	194,071	239,152	1,221,006	
-	-	-	214,503	214,503	
(8,644)	(205,859)	-	-	(214,503)	
-	-	18,000	-	18,000	
(8,644)	(205,859)	18,000	214,503	18,000	
(28,563)	(52,214)	(20,424)	(12,000)	443,678	
28,563	1,834,718	462,042	141,189	5,521,850	
\$ -	\$ 1,782,504	\$ 441,618	\$ 129,189	\$ 5,965,528	

City of South Lyon, Michigan

Expenditures	Community Maintenance and Development					
	Public Safety				Community Maintenance and Development	
	General Government	Police	Fire	Ambulance	Cemetery	Public Works
Salaries and wages	\$ 340,040	\$ 1,506,038	\$ 270,756	\$ -	\$ 22,467	\$ 174,362
Salaries and wages - Mechanic	-	-	-	-	-	36,531
Reimbursement of mechanic wages	-	-	-	-	-	(36,531)
Fringe benefits	148,076	670,341	29,020	-	12,513	152,695
Uniforms & Cleaning Allowance	-	22,183	11,686	-	-	5,413
Tuition reimbursement	-	1,215	-	-	-	-
Office supplies	5,134	4,387	2,414	-	-	485
Operating expenses	41,963	20,289	10,197	-	8,785	17,781
Ammunition	-	4,718	-	-	-	-
Professional Services	424,858	7,590	-	-	-	-
Contractual Services	114,151	137,108	40,975	-	1,773	15,138
Prisoner Board	-	-	-	-	-	-
Auditor	37,800	-	-	-	-	-
Planning Consultant	29,979	-	-	-	-	-
Elections	17,326	-	-	-	-	-
Computers	7,882	5,282	7,780	-	-	2,342
Legal Fees	125,163	37,255	-	-	-	-
Memberships & Dues	12,197	620	5,067	-	-	667
Radio Maintenance	-	-	1,955	-	-	-
Telephone	7,520	14,994	1,368	-	1,293	5,835
Gas & Oil	-	23,326	6,372	-	1,335	22,786
Transportation & Mileage	3,181	-	-	-	-	69
Vehicle Maintenance	1,057	15,264	17,460	-	-	119,466
Community Promotions	65,121	-	1,782	-	-	-
Printing	7,206	-	-	-	-	-
Publishing	3,223	-	-	-	-	-
Insurance & Bonds	55,390	25,081	23,703	80	662	14,922
Utilities	23,048	12,417	10,893	-	428	17,249
Street Light Expenditures	-	-	-	-	-	100,457
Repairs & Maintenance	-	610	2,101	-	2,327	35
Building Maintenance	409	4,718	9,019	-	-	12,236
NPDES Phase II Stormwater	-	-	-	-	-	16,027
Equipment Rental	-	-	-	-	4,600	13,800
Hydrant Rental	-	-	-	-	-	-
Education/Training	2,540	7,199	9,904	-	-	2,417
Witness fees	-	49	-	-	-	-
Miscellaneous Expense	1,341	-	-	-	-	-
Contribution-Solid Waste	18,960	-	-	-	-	-
Contribution-Community Schools	25,000	-	-	-	-	-
Capital Outlay	-	15,714	-	-	-	-
Beautification	10,011	-	-	-	-	-
Land Improvements	-	-	-	-	2,481	21,239
Rental Properties	-	-	-	-	-	-
Equipment Miscellaneous	-	5,810	12,419	-	2,687	464
Capital Equipment	-	82,292	54,881	-	-	-
Total expenditures	\$ 1,528,576	\$ 2,624,500	\$ 529,752	\$ 80	\$ 61,351	\$ 715,885

Other Supplemental Information

Schedule of Expenditures – General Fund

June 30, 2019

Recreation and Culture					Total	
Parks and Recreation	Public Transportation	Historical	Cultural Arts	Cable Commission	2019	2018
\$ 82,691	\$ -	\$ 4,190	\$ -	\$ 1,485	\$ 2,402,029	\$ 2,370,230
-	-	-	-	-	36,531	34,912
-	-	-	-	-	(36,531)	(34,912)
25,481	-	-	-	-	1,038,126	1,015,153
-	-	-	-	-	39,282	37,380
-	-	-	-	-	1,215	1,215
-	-	-	-	-	12,420	14,495
4,214	-	-	-	-	103,229	77,598
-	-	-	-	-	4,718	5,977
12,775	-	3,125	-	-	448,348	330,955
-	85,289	2,117	-	-	396,551	362,966
-	-	-	-	-	-	-
-	-	-	-	-	37,800	28,260
-	-	-	-	-	29,979	21,315
-	-	-	-	-	17,326	8,015
-	-	-	-	-	23,286	23,633
-	-	-	-	-	162,418	162,209
-	-	-	-	-	18,551	18,126
-	-	-	-	-	1,955	147
-	-	-	-	-	31,010	28,827
4,716	-	-	-	-	58,535	62,252
-	-	-	-	-	3,250	7,881
-	-	-	-	-	153,247	148,511
-	-	-	881	-	67,784	63,677
-	-	-	-	-	7,206	7,432
-	-	-	-	-	3,223	13,530
970	-	941	-	-	121,749	114,987
1,204	-	6,018	-	-	71,257	67,344
-	-	-	-	-	100,457	113,540
9,789	-	26	-	-	14,888	19,217
-	-	6,466	-	-	32,848	36,884
-	-	-	-	-	16,027	15,591
11,025	-	-	-	-	29,425	25,625
-	-	-	-	-	-	2,500
-	-	-	-	-	22,060	23,984
-	-	-	-	-	49	84
12	-	-	384	-	1,737	1,099
-	-	-	-	-	18,960	17,417
-	-	-	-	-	25,000	-
-	-	-	-	1,952	17,666	4,036
-	-	-	-	-	10,011	5,392
-	-	685	-	-	24,405	21,178
-	-	-	-	-	-	884
-	-	-	-	505	21,885	28,033
-	-	-	-	-	137,173	6,996
<u>\$ 152,877</u>	<u>\$ 85,289</u>	<u>\$ 23,568</u>	<u>\$ 1,265</u>	<u>\$ 3,942</u>	<u>\$ 5,727,085</u>	<u>\$ 5,314,575</u>

Other Supplemental Information
Schedule of Expenditures by Activity
Major and Local Roads Funds

June 30, 2019

Major Roads Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 70,650	\$ 1,852	\$ 33,466	\$ 3,183	\$ 109,151
Fringe benefits	-	170	40,075	881	15,152	1,433	57,711
Operating expense	-	-	2,451	2,473	31,404	3,591	39,919
Professional services	4,290	614	-	-	-	-	4,904
Contractual services	-	-	-	-	-	-	-
Insurance & bonds	-	-	60	-	-	-	60
Traffic signals	-	-	-	2,084	-	-	2,084
Repairs and maintenance	-	-	16,417	-	-	-	16,417
Equipment charges	-	-	14,000	-	12,500	-	26,500
Total expenditures	<u>\$ 4,290</u>	<u>\$ 784</u>	<u>\$ 143,653</u>	<u>\$ 7,290</u>	<u>\$ 92,522</u>	<u>\$ 8,207</u>	<u>\$ 256,746</u>

Local Roads Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 73,354	\$ 1,788	\$ 28,666	\$ 3,442	\$ 107,250
Fringe benefits	-	-	32,462	818	12,671	1,527	47,478
Operating expense	-	-	2,330	1,238	16,979	2,629	23,176
Professional services	4,290	36,415	-	-	-	-	40,705
Contractual services	-	-	-	-	-	-	-
Insurance & bonds	-	-	60	-	-	-	60
Repairs and maintenance	-	-	7,525	-	-	652	8,177
Equipment charges	-	-	15,480	-	13,500	-	28,980
Total expenditures	<u>\$ 4,290</u>	<u>\$ 36,415</u>	<u>\$ 131,211</u>	<u>\$ 3,844</u>	<u>\$ 71,816</u>	<u>\$ 8,250</u>	<u>\$ 255,826</u>

Other Supplemental Information
Schedule of Operating Expenses
Proprietary Fund – Water and Sewer Fund

	June 30, 2019									
	Activity			Activity			Total			
	Water			Sanitary						
	Distribution	Water	Wastewater	Sewer	Solid Waste	Water/Sewer				
	System	Repair	System	Repair	Collection	Construction	2019	2018		
Personnel services:										
Salaries and wages	\$ 201,740	\$ 53,981	\$ 334,944	\$ 53,487	\$ -	\$ -	\$ 644,152	\$ 597,653		
Fringe benefits	115,679	19,972	156,970	22,924	-	-	315,545	311,341		
Pension and OPEB liability expense (recovery)	(23,209)	(23,209)	(23,209)	(23,209)	-	-	(92,836)	95,845		
Total personnel services	294,210	50,744	468,705	53,202	-	-	866,861	1,004,839		
Equipment repairs and maintenance:										
Equipment maintenance	18,293	53,043	4,416	42,039	-	-	117,791	107,721		
Building maintenance	2,864	-	106,107	-	-	-	108,971	113,798		
Total equipment repairs and maintenance	21,157	53,043	110,523	42,039	-	-	226,762	221,519		
Public utilities:										
Electric and gas	74,873	-	257,245	-	-	-	332,118	322,309		
Telephone	1,859	-	3,296	-	-	-	5,155	6,385		
Total public utilities	76,732	-	260,541	-	-	-	337,273	328,694		
Refuse collection	-	-	-	-	512,715	-	512,715	503,262		
Depreciation	741,658	-	741,658	-	-	-	1,483,316	1,456,121		
Other services and charges - Professional services	20,960	458	47,565	1,074	-	-	70,057	85,221		
Insurance	14,838	-	14,361	-	-	-	29,199	27,578		
Other	75,675	2,471	110,214	4,692	-	-	193,052	210,155		
Total operating expenses	\$ 1,245,230	\$ 106,716	\$ 1,753,567	\$ 101,007	\$ 512,715	\$ -	\$ 3,719,235	\$ 3,837,389		

Statistical Section

City of South Lyon, Michigan**Schedule of Taxes Levied, Collected, and
Returned Delinquent – 2018 Roll****June 30, 2019**

	<u>Final Levy</u>	<u>Taxes Collected</u>	<u>Returned Delinquent</u>	<u>Percent Collected</u>
Taxable Value: \$360,135,680				
City of South Lyon	\$ 5,458,391	\$ 5,384,925	\$ 73,466	98.65
Specials	3,073	2,424	649	78.88
Downtown Development Authority	42,043	41,226	817	98.06
Administration fee	96,629	95,048	1,581	98.36
Oakland Community College	550,133	543,845	6,288	98.86
South Lyon Community Schools	4,078,924	4,004,031	74,893	98.16
State education	2,139,247	2,110,859	28,388	98.67
Zoo Authority	35,200	34,484	716	97.97
Art Institute	69,737	68,318	1,419	97.97
Huron Clinton Metro Park	75,885	74,334	1,551	97.96
Intermediate School District	1,176,780	1,163,272	13,508	98.85
Oakland County	1,440,338	1,420,862	19,476	98.65
Total	<u>\$ 15,166,380</u>	<u>\$ 14,943,628</u>	<u>\$ 222,752</u>	98.53

City of South Lyon, Michigan

Continuing Disclosure Undertaking

June 30, 2019

A. Taxable Value – Fiscal Year 2018-2019 - \$360,135,680

B. Taxable Value by Use and Class – Fiscal Year 2018-2019

Use	Taxable Value	Percent of Taxable Value	SEV	Percent of SEV
Commercial	\$ 32,560,490	9.04	\$ 37,152,210	8.19
Industrial	7,576,210	2.10	8,124,430	1.79
Residential	311,560,870	86.51	400,253,960	88.17
Comm PP	4,058,830	1.13	4,058,830	0.89
Utility	4,379,280	1.22	4,379,280	0.96
Total	<u>\$ 360,135,680</u>	<u>100.00</u>	<u>\$ 453,968,710</u>	<u>100.00</u>

Class				
Real property	\$ 351,697,570	97.66	\$ 445,530,600	98.14
Personal property	<u>8,438,110</u>	<u>2.34</u>	<u>8,438,110</u>	<u>1.86</u>
Total	<u>\$ 360,135,680</u>	<u>100.00</u>	<u>\$ 453,968,710</u>	<u>100.00</u>

C & D. Property Tax Rates by Governmental Unit - Fiscal Year 2018-2019

City of South Lyon	Rate	City of South Lyon	Rate
General operation	11.4938	Huron Clinton Authority	0.2129
Capital improvements	0.5000	Oakland County	4.0400
Building Authority	0.2400	Intermediate schools	3.2813
Debt service - Sewer G.O.	<u>3.0000</u>	Oakland Community College	1.5431
		Zoo Authority	0.9820
		Oakland County P&R	0.2349
		South Lyon Community Schools	18.0000
		Art Institute	0.1945
		State education	6.0000
		South Lyon school debt	<u>8.0000</u>
Total City of South Lyon	<u>15.2338</u>	Total governmental units	<u>59.2901</u>
District library	1.0856		
Library voted	0.4820		

City of South Lyon, Michigan**Continuing Disclosure Undertaking (Continued)****June 30, 2019****E. Property Tax Collections – Fiscal Year 2018-2019 (as of 3/1/2019) – 98.53%****F. Ten Largest Taxpayers – Fiscal Year 2018-2019**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>
Colonial Acres Phase 5	Co-op	\$ 14,235,410
Colonial Acres Dev Co	Co-op	5,889,120
Roco Brookwood Farms LLC	Apartments	4,452,390
Brookdale Assn Ltd Partner	Apartments	3,808,580
DTE	Industrial	3,119,320
Loop Waters Edge	Apartments	1,840,900
Michigan Seamless Tube	Industrial	1,494,190
Showerman	Commercial	1,375,320
Beztak Co	Commercial	1,365,800
Gateway Commons Dev LLC	Commercial	1,225,020
Total		<u><u>\$ 38,806,050</u></u>

G. Distributable Aid – State-Shared Revenue – Fiscal Year 2018-2019 - \$1,035,122**H. Legal Debt Margin**

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of June 30, 2019:

Debt limit (1)		\$ 45,396,871
Debt outstanding	\$ 9,224,247	
Less exempt debt	<u>6,997,379</u>	<u>2,226,868</u>
Legal debt margin		<u><u>\$ 43,170,003</u></u>

(1) 10 percent of \$453,968,710, which is the City's SEV for the fiscal year ended June 30, 2019. See "Property Valuations" herein.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

City of South Lyon, Michigan**Continuing Disclosure Undertaking (Continued)****June 30, 2019****Debt Statement**

The following table reflects a breakdown of the City's direct debt as of June 30, 2019.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds in the following table, which are designated as "UT."

City Direct Debt	Gross	Self-supporting	Net
State Revolving Fund Loan:			
Dated March 27, 2003 (UT)	\$ 6,997,379	\$ 6,997,379	\$ -
Installment Purchase Obligations:			
2016 Street Sweeper	121,868	-	121,868
Revenue Bonds - 2012 Drinking Water Revolving Fund	2,105,000	-	2,105,000
Total	<u>\$ 9,224,247</u>	<u>\$ 6,997,379</u>	<u>\$ 2,226,868</u>
Per capita net City direct debt (1)			\$ 196.60
Percent of net direct debt to SEV (2)			0.49%

(1) Based on the City's 2010 census population of 11,327

(2) Based on \$453,968,710, which is the City's SEV for the fiscal year ended June 30, 2019. See "Property Valuations" herein.

City of South Lyon, Michigan**Continuing Disclosure Undertaking (Continued)****June 30, 2019**

Overlapping Debt (3)	Gross	City's Share as	
		Percent of	Net
		Gross	
South Lyon Schools	\$ 146,115,000	15.45%	\$ 22,574,768
Oakland County	314,844,309	0.63%	1,983,519
Oakland Intermediate School District	43,855,000	0.63%	276,287
Total	<u>\$ 504,814,309</u>		<u>\$ 24,834,574</u>

Per capita net overlapping debt (1) (3)	\$ 2,192.51
Percent of net overlapping debt to SEV (2)	5.47%

Per capita net direct and overlapping debt (1)	\$ 2,389.11
Percent of net direct and overlapping debt to SEV (2)	5.96%

(1) Based on the City's 2010 Census population of 11,327

(2) Based on \$453,968,710, which is the City's SEV for the fiscal year ended June 30, 2019. See "Property Valuations" herein.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City

October 4, 2019

To the Mayor and Members of the City Council
City of South Lyon, Michigan

We have audited the financial statements of the City of South Lyon, Michigan (the "City") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 4, 2019. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Other Recommendations and Related Information

Section I includes any deficiencies we observed in the City's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the mayor and city council of the City of South Lyon, Michigan.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the City in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are very much appreciated.

This report is intended solely for the use of the city council and management of the City of South Lyon, Michigan and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Douglas G. Bohrer



Spencer Tawa

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the City as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and a separate deficiency that we consider to be a significant deficiency.

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.

We consider the following deficiency in the City's internal control to be a material weakness:

Segregation of Duties Relating to Bank Reconciliations

The City has approximately \$19.4 million in various bank accounts. It was noted that, from approximately December 2018 through May 2019, the bookkeeper was performing the bank reconciliations for all the main operating bank accounts with no formal independent second review being performed. As part of her functional role, the bookkeeper also regularly enters financial information into the general ledger. In addition, the bookkeeper had administrative access to the online banking platform with the ability to initiate wire transfers. Although no improprieties were discovered during our audit, the City should ensure proper duty segregation is in place related to the preparation and second review of the monthly bank reconciliations. In June 2019, the City identified this deficiency in internal control and began implementing a formal second independent review process.

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. We consider the following deficiency in the City's internal control to be a significant deficiency:

Trial Balance Account Review

City general ledger liability account balances are composed of an accumulation of numerous transactions taking place over a period of time. At any one point in time, the City should be able to reconcile the balances in these accounts to a detailed list of parties owed. For one account (the customer deposits payable account), this reconciliation has not been prepared. We recommend the City review the historical general ledger details for this account and complete a reconciliation to determine what additional action needs to be taken to address the remaining balance and related underlying transactions in this account.

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 24, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 24, 2019.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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 2019, except for the implementation of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement now requires the City to disclose additional essential information related to debt in the notes of the financial statements.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

Section II - Required Communications with Those Charged with Governance (Continued)

The most sensitive estimates affecting the financial statements are the assumptions used by the City to estimate of the unbilled Water and Sewer Fund utility receivables, the various estimates utilized related to the City's use of and inclusion in the Michigan Municipal Employees' Retirement System (MERS) defined benefit pension plan, and the estimated liability related to the other postemployment benefit (OPEB) (retiree health care). For the utility billing, management's estimates and assumptions are based on actual previous similar period utility billings for the geographic areas impacted by the estimates. For the pension plan, estimates and assumptions are determined by MERS and its actuary, based on the City's negotiations with its bargaining units and resolutions of the City Council. For retiree health care, the estimates and assumptions are determined by the actuary in conjunction with the City. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose 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.

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. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 4, 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 the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section III - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

- **Wire Transfer Limits** - As part of the City's operations, the City has the ability to perform wire transfers from the banking account to third parties. The only significant wire transfers made presently are to Oakland County, Michigan for disbursement of property taxes. Currently, there are no limits in place restricting a maximum amount for a wire transfer. We recommend implementing a reasonable limit on wire transfer amounts as a control to limit any possible misappropriation of assets.
- **Restricted Assets** - The City has restricted assets (to fund future replacement) recorded in its Water and Sewer Fund. These accumulated assets are derived from tap-in fees and restricted to funding improvements to the water and sewer infrastructure. A City Council resolution exists supporting the initial establishment of the restricted assets replacement fund requirement. However, we noted the calculation of the amounts added annually to the restricted assets is not quite the same as the approved resolution language. We recommend the City reassess how it wants annual tap-in revenue to be utilized to fund system improvements and adjust its restricted asset policy accordingly.
- **Investment Returns** - The City has a considerable amount of funds in cash accounts earning a very low rate of interest. While it remains a difficult market for investing public funds, we recommend the City explore other investment opportunities allowable under state law to potentially enhance future investment returns.
- **Information Technology**
 - **Network Authentication Controls (Passwords)** - The City's IT network controls include the utilization of passwords; however, these controls do not include any requirements regarding minimum password length or complexity. Passwords do not expire after a certain length of time. Controls such as these are an important aspect of maintaining the network's security and integrity. We recommend implementing such controls for all employees with access to the City's network applications and modules.
- **Cash Drawer Activity** - The City handles numerous cash transactions throughout the day related to tax payments, water payments, and other fees. It was noted that a daily cash drawer reconciliation, which is used to ensure all cash payments are properly accounted for, is not performed concurrently by two individuals or by an individual restricted from cash receipting functions. To limit the individual collecting cash receipts from counting his or her own drawer independently, we recommend the daily cash drawer reconciliation be performed by two individuals concurrently or by an individual restricted from the cash receipting function. In regards to voided cash receipts, it is our understanding that the same individual initiating the cash receipt must void their own transaction. We recommend that this procedure be changed to require another individual to approve the cash receipt void to further strengthen the controls in place.
- **Equipment Charges** - The City allocates equipment rental charges from the Equipment Replacement Fund to some of the other city funds. These charges have been the same amount for the past several years. The City should perform an analysis to determine if the amount allocated to each fund is still reasonable.

Section III - Other Recommendations and Related Information (Continued)

Act 51 Report Due Date

The Michigan Department of Transportation has granted an automatic 60-day extension to cities and villages that are required to file the Act 51 report. The updated policy will extend the Act 51 report deadline to be due within six months of your fiscal year end date, which will align with the due date for the audited financial statements. For cities whose most current fiscal year ends before July 1, the Act 51 report must be submitted by December 31 to be included in the snow payment calculation (if eligible and qualified).

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to "sometime in 2019." While a mandatory implementation date has not been set, on November 27, 2018, further guidance was issued. The Treasury is encouraging those who have not yet implemented to delay doing so to allow the Treasury to digest the suggestions that have been made to make the process smoother. In the meantime, the Treasury is working on developing training and additional information to assist in the transition. The Treasury also assured that plenty of advance warning would be given when a date is set and that it will most likely be for years beginning January 1, 2020 or later.

Local units should begin evaluating this new chart of accounts to determine what changes will be necessary, including any budgetary changes, and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution. The new chart of accounts can be found at the following link: http://www.michigan.gov/documents/uniformchart_24524_7.pdf.

Legacy Costs

Legacy costs and the challenge of funding them continues to be a topic of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises by requiring governmental financial statements to now reflect the net pension/OPEB liability. For many governments, these net liabilities are significant. In addition, Public Act 202 of 2017 has brought further focus on the funding level of these plans.

Maintaining or even improving the funded status of the plans is dependent upon a number of factors, including the government's contribution policies, its amortization policy for funding the unfunded actuarial accrued liability, its benefit levels, and the ability to make future changes to the plan. The City is well aware of these legacy liabilities and has begun to address them, including closing the defined benefit pension plan to new entrants and having new employees eligible to participate in the MERS defined contribution plus plan.

That said, the challenge here is significant. We are happy to assist you in thinking through alternative ways to manage this liability.

Section III - Other Recommendations and Related Information (Continued)

Revenue Sharing

The fiscal year 2020 governor's budget recommendation includes \$1.4 billion for revenue sharing broken down as follows:

Description	Final 2019 Budget	Final 2020 Budget
Constitutionally required payments	\$835.3 M	\$886.5 M
CVTRS	243.0 M	262.8 M
CVTRS - One-time payments	5.8 M	0 M
County revenue sharing	177.2 M	184.8 M
County incentive program	43.3 M	43.3 M
County one-time payments	1.0 M	0 M
Fiscally distressed community grants	2.5 M	5.0 M
Supplemental CVTRS	6.2 M	0 M
Total	\$1,314.3 M	\$1,382.4 M

For the third year in a row, local units will experience an increase in 2020 based on the governor's budget recommendation, as the constitutional payment budget has been increased by \$68.1 million over the 2019 budget act appropriated amount. The FY 2020 budget also includes the "City, Village, and Township Revenue Sharing" (CVTRS) appropriation that was established in FY 2015, and that number increased to \$262.8 million. Each community's overall increase will vary, as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2020, qualified local units will once again need to comply with the same best practices as they did last year, as follows:

- A citizen's guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

The amount budgeted for distressed CVTRS has been increased from \$2.5 million in 2019 to \$5 million in 2020. The governor's recommendation has removed \$6.2 million for "supplemental CVTRS" payments in FY 2020.

Pension/OPEB Bonds

Originally, the public act allowing for the issuance of pension/OPEB borrowings was set to sunset effective December 31, 2015, but was extended until December 31, 2018 through Public Act 46 of 2015. Therefore, communities meeting certain criteria, such as maintaining a credit rating of AA or higher and closing or freezing plans, were able to issue bonds up until December 31, 2018. This was further extended through December 31, 2023 by Public Act 575 of 2018. This public act has additional stipulations, which can be found in more detail at: <http://www.legislature.mi.gov/documents/2017-2018/publicact/pdf/2018-PA-0575.pdf>.

Section III - Other Recommendations and Related Information (Continued)

Launch of MI Community Financial Dashboard

The Michigan Department of Treasury launched the MI Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 through 2017. You can sign in and review the dashboard here:

<http://micommunityfinancials.michigan.gov/#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5>

Legacy Cost Reporting

Public Act 530 of 2016

On December 31, 2016, the governor signed Public Act 530 of 2016, which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act was effective on March 29, 2017.

Under the prior act, communities were required to publish a summary annual report setting forth key information related to pension and retiree healthcare plans. The amendment requires that this summary annual report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree health care) that is not funded at a level of at least 60 percent, the community must now post a report to its website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable time frame.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the state.

Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the "Act"), which was a primary component of the Act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

On September 25, 2018, the Michigan Department of Treasury released the final uniform assumptions to be used for reporting requirements under the Act. Local units must begin reporting funded ratios and contributions in accordance with the uniform assumptions, starting with their fiscal year 2019 if their audited financial statements are based on an actuarial valuation issued after December 31, 2018. If their fiscal year 2019 audited financial statements are based on an actuarial valuation issued prior to December 31, 2018, the local units must begin reporting on the uniform assumptions starting with their fiscal year 2020. This means that the local unit may potentially need three valuations: a funding valuation (if the local unit chooses to have different assumptions for funding purposes), a valuation that complies with GAAP to be used for financial statement reporting, and a valuation that complies with the State's new uniform assumptions.

The releases by the Department of Treasury include the letter titled "Public Act 202: Selection of the Uniform Assumptions," Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html.

Section III - Other Recommendations and Related Information (Continued)

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information on its website, or in a public place if the local unit does not have a website. The governing body of a local unit will also need to receive a copy of this form in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

Public Act 202 defines that a local unit of government is in “underfunded status” if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government’s governmental funds operations revenue.
2. Retirement Pension Plans - Total plan assets are less than 60 percent of plan total liabilities according to the most recent annual report, and, for primary units of government, the annual required contribution for all of the retirement pension systems of the local unit is greater than 10 percent of the local unit of government’s governmental funds operations revenue.

*Primary units of government are cities, villages, townships, and counties.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a “waiver” under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary will likely need to calculate this number in order for governments to comply. In addition, if your community must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting their website at www.Michigan.gov/LocalRetirementReporting.

Section III - Other Recommendations and Related Information (Continued)

Administrative Charges

The services provided by employees that are traditionally charged to the General Fund, like treasury, finance, HR, etc., oftentimes significantly benefit other funds. As a result, it is a fairly common practice to allocate a portion of these costs via an administrative charge to other funds of the government. Administrative charges can take many forms, such as interfund allocations, chargebacks, and payment in lieu of taxes to other funds (such as a golf courses). While the practice of charging for administrative services provided to other funds may certainly be justified, there seems to be a heightened focus lately on the methodology and amount of charges. Given the fact that many cost allocation methodologies were implemented several years ago, it would be prudent to revisit your current methodology and the related inputs to ensure that any administrative charges are fully substantiated.

Public Act 57 Consolidation of Tax Increment Authorities

Public Act 57 of 2018, otherwise known as The Recodified Tax Increment Financing Act (PA 57) went into effect on January 1, 2019. PA 57 consolidated the ability to create and operate tax increment authorities (other than brownfield redevelopment authorities) into a single statute. All previously created authorities will remain; however, the following acts were repealed, and the corresponding authorities will now operate under PA 57:

- Downtown Development Authority Act (PA 197 of 1975)
- Tax Increment Finance Authority Act (PA 450 of 1980)
- Local Development Finance Authority Act (PA 281 of 1986)
- Nonprofit Street Railway Act (PA 35 of 1867)
- Corridor Improvement Authority Act (PA 280 of 2005)
- Water Resource Improvement Tax Increment Finance Authority Act (PA 94 of 2008)
- Neighborhood Improvement Authority Act (PA 61 of 2007)

Note that the above acts were repealed and recodified into PA 57. The acts listed below were repealed; however, they were not recodified:

- Historical Neighborhood Tax Increment Finance Authority Act (PA 530 of 2004)
- Private Investment Infrastructure Funding Act (PA 250 of 2010)

Any obligation, or refunding of an obligation, that was issued by an authority or by the municipality that created the authority under a statute that was repealed by Public Act 57, will continue in effect under its original terms under the corresponding part of PA 57.

Transparency and Reporting Requirements

1. By April 1, 2019, each authority was required to submit its currently adopted development plan or tax increment finance plan to the Department of Treasury.
2. Annually, after January 1, 2019, each authority must submit a comprehensive annual report to the Treasury, the governing bodies of its related municipality, and each taxing unit levying taxes that are captured by the authority. This report must contain detailed information on the capture and use of tax increment revenue and is due concurrent with the authority's audit report due date (typically six months after the fiscal year end).

Section III - Other Recommendations and Related Information (Continued)

3. Within 180 days after the authority's fiscal year end, subsequent to January 1, 2019, the municipality that created the authority must give public access (either on its website or at a physical location within the municipality) to the following documents:
 - Minutes of all authority board meetings
 - Current authority staff contact information
 - Authority's approved budgets and annual audits
 - Currently adopted development and/or tax increment financing plans
 - Current contracts with descriptions
 - Annual synopsis of the authority's activity, which includes the following:
 - For any tax increment revenue not expended within five years of receipt, include the reasoning for accumulating the funds, their expected uses, and a time frame of when they will be expended.
 - For any tax increment revenue not expended within 10 years of receipt, include the amount of those funds, along with a written explanation for the reason the funds have not been expended.
 - For the immediately preceding fiscal year, a list of the authority's accomplishments, projects, investments, events, and promotional campaigns
4. The authority must hold, at a minimum, two informational meetings each year and give a 14-day advance notice to the public and to the governing body of each taxing unit. These meetings may be held in conjunction with other public meetings of the authority or municipality.

Any authority not in compliance with the above reporting requirements will receive a notice from the Department of Treasury. If the authority is still in noncompliance status after 60 days from receipt of the notice, the authority will be prohibited from capturing tax increment revenue in excess of the amounts needed to pay bonded indebtedness and other obligations of the authority during this period of noncompliance.

Additional Information

To view Public Act 57 of 2018, regarding the consolidation of tax increment authorities and additional reporting requirements, visit the State of Michigan's website: [http://www.legislature.mi.gov/\(S\(nhbog4doz1h4bwbqb0gcxqim\)\)/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018](http://www.legislature.mi.gov/(S(nhbog4doz1h4bwbqb0gcxqim))/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018).

Section III - Other Recommendations and Related Information (Continued)

Other New Legislation

Opportunity Zones

The Tax Cuts and Jobs Act of 2017 (TCJA) introduced “opportunity zones,” a new incentive to encourage investment in low-income communities by providing tax benefits to investors. The new law shares some similarities with other incentives by focusing on specific disadvantaged geographic areas, but unlike other programs that provide tax credits or accelerated deductions for making investments or creating jobs in distressed areas, the opportunity zone program allows taxpayers to defer and possibly exclude gains from taxable income. To realize the benefits of the program, investments must be made into a new type of investment vehicle known as a “qualified opportunity fund” (QOF). Any entity, group, or organization can establish a QOF as long as they follow the proper guidelines. The QOFs use these funds to respond to the needs of the community, allowing for investment in businesses, equipment, and/or real property. Opportunity zones were established through a nomination by the State, followed by a certification from the secretary of the U.S. Treasury, via his delegation authority to the IRS. We encourage you to become familiar with where these opportunity zones are located and the potential impact on your community. Local units that will be affected should start to consider a plan for the designated opportunity zone and what types of developments you would like to see come to the area. For more information, please refer to the IRS website at <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions> or to Plante & Moran, PLLC’s article at <https://www.plante-moran.com/explore-our-thinking/insight/2018/05/opportunity-zones-offer-tax-benefits-to-invest-in-new-qov>, which addresses some of the details and complexities of the program.

LCSA Act Amendments

Public Acts 247 and 248 of 2018 were signed into law on June 27, 2018 by Governor Snyder. These acts significantly impact the Local Community Stabilization Authority (LCSA) Act, including how personal property tax reimbursements are calculated.

The State Department of Treasury issued a summary of the amendments in July 2018, which can be found at the following link: https://www.michigan.gov/documents/treasury/Overview_of_2018_LCSA_Act_Amendments_627459_7.pdf.

This summary document lists the following changes that resulted from these acts:

1. Accelerate some reporting deadlines and add two new reporting requirements.
2. Change the calculation of the millage rate to be used in the calculation of the PPT reimbursements.
3. Change the calculation of the personal property exemption loss and eliminate the requirements to recalculate prior year taxable values.
4. Change the millage rate to be used in the calculation of a tax increment finance authority's (TIFA) PPT reimbursement.
5. Make the local community stabilization authority responsible for distributing the fire protection services payments.
6. Create a process for correcting PPT reimbursements.
7. Allow for a one-time PPT advance for prior year underpayments of \$500,000 or more.

Section III - Other Recommendations and Related Information (Continued)

8. Change the payment dates of the PPT reimbursements to allow for corrections to current year reimbursements and delay the payment of qualified loss in excess of 100 percent until May 20.
9. Change how municipalities are required to record and allocate the revenue.

While we strongly recommend reviewing the link provided above for an in-depth look at the changes, highlighted below are the more significant changes:

- PPT reimbursement calculations are changing, as follows:
 - The requirements for recalculation of prior year taxable value have changed. Going forward, prior year property tax values for commercial and industrial personal property will only be modified for municipality boundary changes, as well as to exclude any that were classified in the municipality where they are currently located as utility personal property or real property after 2012.
 - The calculation of PPT reimbursements that are based on the acquisition cost of eligible personal property for two years has been delayed until 2021.
 - Reimbursement for 100 percent of the calculated qualified loss going forward will be received in either October or February.
 - Each year, any remaining balance of the local community stabilization share fund revenue for the calendar year will be distributed to counties, cities, townships, villages, and community colleges. The allocation will be based on each municipality's share of the total reimbursement based on the acquisition cost of all eligible personal property and qualified loss. These reimbursement payments will be a separate payment that will be reimbursed in May. This allows time for any errors in that year's PPT reimbursement calculation to be identified and corrected.
 - There are also changes to the tax increment finance authority PPT reimbursement calculation; please refer to the link above for more details.
- Fire protection service payments were distributed by LCSA to municipalities starting in 2018. The payment distributions will continue to occur by November 30 each year. Each municipality is to continue to complete and submit the required questionnaire to LARA in order to qualify.
- Timing of PPT reimbursements have changed, as follows:
 - Tax increment finance authorities - For a TIFA that previously received payments in November, reimbursements will be issued on October 20 of each year. Corrections for the underpayment of a prior year PPT reimbursement or a current year reimbursement will be issued on May 20 of each year.
 - Municipalities, excluding school districts, ISDs, and TIFAs - For a municipality that previously received payments in November, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will be issued on October 20 of each year. For municipalities that previously received payments in February, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will continue to be issued on February 20 of each year. Corrections for the underpayment of a prior year PPT reimbursement or a current year reimbursement will be issued on May 20 of each year, as will the portion of qualified loss exceeding 100 percent reimbursement.

Section III - Other Recommendations and Related Information (Continued)

The table below provides a schedule of payment dates for all municipalities:

Description of PPT Reimbursement	Date of Reimbursement
Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for county-allocated millage to municipalities that do not levy millage 100 percent in December and TIFAs (note that payment must be allocated to the funds based on millages)	October 20 (each year)
Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for townships, county extra-voted millage, and to municipalities that levy millage 100 percent in December	February 20 (each following year)
Payment of prior year underpayment that was not advanced and current year underpayment and prorated qualified loss in excess of 100 percent (note that payment does not need to be allocated based on millages. If the local unit chooses, this can be fully recorded in the General Fund.)	May 20 (each following year)

- Changes to the requirement to restrict revenue - To date, the previous LCSA act had only required a municipality to use the reimbursement amount received for debt millage to pay for debt and to use the essential service reimbursement to pay for the cost of essential services. The newly signed amendment now also requires that each municipality allocate and record the payments received in the same manner as the millage levied, up to 100 percent reimbursement. The October payment represents the 100 percent reimbursement and should be allocated by millages. The May payment does not represent reimbursement and can be receipted into the General Fund at the discretion of the local unit.

In addition, for county road millages levied under Section 20b of 1909 PA 283, MCL 224.20b, a formula to allocate a portion of the PPT reimbursement to each city and village must be decided on by March 31 by the cities, villages, and road commission. If this does not occur, a formula for allocating payments will be determined by the Department of Treasury.

As a reminder, the LCSA reimbursements should not be reported on the financial statements with property taxes; instead, they should be included with other intergovernmental revenue from the State (state-shared revenue, grants, and other). The State has created a new account number for the revenue, 573, and titled it "Local Community Stabilization Share Appropriation." As always, communities should follow the State's guidance related to the Uniform Chart of Accounts.

Upcoming Accounting Standards Requiring Preparation

GASB Statement No. 84 - Fiduciary Activities

GASB 84 provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary will now be reported as such.

Section III - Other Recommendations and Related Information (Continued)

Although this standard will not be effective for another year, given its potential to have a major impact on many governments, not only to their external financial statements, but also to their accounting system requirements and budget document, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the types of activities that should be analyzed and then running those activities through the lens of this standard.

GASB Statement No. 87 - Leases

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

GASB Statement No. 90 - Majority Equity Interest

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2018. This statement requires that governments analyze the holdings of legally separate organizations to see if the ownership of a majority interest in a separate legal organization qualifies as an investment or a component unit. Plante & Moran, PLLC will be providing resources to assist with this analysis.