

CITY OF ESSEXVILLE  
BAY COUNTY  
STATE OF MICHIGAN

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2013

CITY OFFICIALS – As of June 30, 2013

Mayor	Russell Tanner
Mayor Pro Tem	Jennifer Gradowski
Council Member	Thomas Rehmus
Council Member	Tim Weiler
Council Member	Robert Mantei
Council Member	John Connelly
Council Member	John Kustuch
Treasurer	Fran DeWyse
Clerk	Sarah Wilcox
Director of Public Safety	Daniel J. Hages
Administrative Assistant	Kate Gaiser
City Attorney	Gerald Pergande
City Manager	Daniel J. Hansford

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***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
The City of Essexville  
Essexville, Michigan 48732

We have audited the accompanying financial statements of the governmental activities, the business – type activities each major fund, and the aggregate remaining fund information of City of Essexville as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Essexville'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, each major fund, and the aggregate remaining fund information of the City of Essexville, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Essexville's basic financial statements. The combining and individual nonmajor fund financial statements, general fund detail, and indebtedness schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, general fund detail of expenditures, and indebtedness schedules are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements, general fund detail of expenditures and indebtedness schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 11 to the financial statements, the City of Essexville implemented Governmental Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the City of Essexville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Essexville's internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
Bay City, Michigan 48708  
November 15, 2013

**Quast, Janke and Company, P.C.**  
*Certified Public Accountants*

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

To the City Council  
The City of Essexville  
1107 Woodside  
Essexville, Michigan 48732

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Essexville, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Essexville's basic financial statements, and have issued our report thereon dated November 15, 2013.

**Internal Control over Financial Reporting**

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

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

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

The City Council  
The City of Essexville

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Essexville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and loan agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-01 relating to reserve requirements for USDA loan.

### **Purpose of this Report**

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

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
Bay City, Michigan 48708  
November 15, 2013

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

This section of the City of Essexville's annual Financial Report presents the Management Discussion and Analysis (MD&A) of the City's financial activities during the fiscal year ended June 30, 2013. It is intended to be read as part of the City's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of Essexville exceeded liabilities at June 30, 2013, by \$3,116,230. Of this amount \$1,767,443 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$410,809 during the year. Of this amount the position of our governmental activities increased \$553,337 and the position of our business-type activities decreased by \$142,528.

**USING THIS REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

- **Management's Discussion and Analysis** introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- **Government-Wide Financial Statements** consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.
- **Fund Financial Statements** tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statements by providing information about the major funds.
- **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- **Required Supplementary Information**, other than MD&A, provides information about the required budgetary comparison information.
- **Other Additional Information** provides detailed information about the General Fund and Debt.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**REPORTING THE CITY AS A WHOLE**

The Statement of Net Position, the Statement of Activities, and the Government-Wide Statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net position, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision. The following paragraphs are intended to assist in making this overall assessment.

**REPORTING THE CITY'S MAJOR ACTIVITIES**

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business-Type Activities** - This activity includes the water and sanitary sewer systems and the rubbish fund. These activities are financed primarily by user charges.

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

The fund financial statements provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has three kinds of funds: governmental, proprietary and fiduciary.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**Governmental Funds**

The Governmental Funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street, Local Street, and Downtown Development Authority and 2010 Debt Service Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The financial statements required for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

**Proprietary Funds**

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund and the Business-Type Activities included in the Government-Wide Statement is the detail and additional information, such as cash flows, provided in the Proprietary Fund statements. The Proprietary Funds which include the Water, Sewer, and Rubbish Funds, are considered to be major funds of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The financial statements required for Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position and a Statement of Cash Flows.

**Fiduciary Funds**

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net position, and is reported using accounting principles similar to Proprietary Funds. The City's Fiduciary Funds are presented in the Fiduciary Fund financial statements by type, Fringe Benefit Fund and Tax Collection Fund. Because by definition these assets are being held for the benefit of a third party, pension participants and other local governments, and cannot be used to address activities or obligations of the government, these funds are not incorporated into the Government-Wide Statements.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>						
Current and other assets	\$ 1,818,177	\$ 1,718,969	\$ 898,004	\$ 854,550	\$ 2,716,181	\$ 2,573,519
Capital assets net of accumulated depreciation	<u>2,488,464</u>	<u>2,511,963</u>	<u>8,572,654</u>	<u>8,567,751</u>	<u>11,061,118</u>	<u>11,079,714</u>
Total Assets	4,306,641	4,230,932	9,470,658	9,422,301	13,777,299	13,653,233
<b>LIABILITIES</b>						
Current liabilities	43,396	516,533	251,353	342,467	294,749	859,000
Long-term liabilities	<u>2,426,320</u>	<u>2,430,811</u>	<u>7,940,000</u>	<u>7,658,000</u>	<u>10,366,320</u>	<u>10,088,811</u>
Total Liabilities	2,469,716	2,947,344	8,191,353	8,000,467	10,661,069	10,947,811
<b>NET POSITION</b>						
Invested in capital assets of net related debt	334,291	(95,196)	777,629	1,054,724	1,111,920	959,528
Restricted	236,867	213,005	0	0	236,867	213,005
Unrestricted	<u>1,265,767</u>	<u>1,165,779</u>	<u>501,676</u>	<u>367,109</u>	<u>1,767,443</u>	<u>1,532,888</u>
Total Net Position	<u>\$ 1,836,925</u>	<u>\$ 1,283,588</u>	<u>\$ 1,279,305</u>	<u>\$ 1,421,833</u>	<u>\$ 3,116,230</u>	<u>\$ 2,705,421</u>

The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$1,767,443.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

The following analysis provides the changes in the net position for the City's governmental and business-type activities:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
REVENUES:						
Charges for services	\$ 73,009	\$ 72,272	\$ 1,617,270	\$1,639,343	\$ 1,690,279	\$1,711,615
Operating grants	242,582	239,283	55,765	61,296	298,347	300,579
Capital grants	45,000	0	0	0	45,000	0
GENERAL REVENUES:						
Property taxes	1,454,648	1,336,674	32,923	33,133	1,487,571	1,369,807
State shared revenue	317,666	308,314	0	0	317,666	308,314
Unrestricted investment earnings	13,326	8,841	1,309	1,446	14,635	10,287
Miscellaneous	<u>6,457</u>	<u>(5,849)</u>	<u>0</u>	<u>(488,475)</u>	<u>6,457</u>	<u>(494,324)</u>
Total Revenues	2,152,688	1,959,535	1,707,267	1,246,743	3,859,955	3,206,278
PROGRAM EXPENSES:						
General government	279,818	297,628	0	0	279,818	297,628
Public safety	513,656	517,358	0	0	513,656	517,358
Public works	61,990	60,394	0	0	61,990	60,394
Streets	231,277	228,722	0	0	231,277	228,722
Comm. & Econ. Development	70,561	46,907	0	0	70,561	46,907
Unallocated fringes	299,200	150,857	0	0	299,200	150,857
Recreational/cultural	21,934	22,004	0	0	21,934	22,004
Interest	67,176	62,869	238,321	235,876	305,497	298,745
Sewer	0	0	847,781	652,683	847,781	652,683
Water	0	0	451,469	469,544	451,469	469,544
Refuse	0	0	312,224	302,014	312,224	302,014
Depreciation	<u>53,739</u>	<u>51,181</u>	<u>0</u>	<u>0</u>	<u>53,739</u>	<u>51,181</u>
Total Expenses	<u>1,599,351</u>	<u>1,437,920</u>	<u>1,849,795</u>	<u>1,660,117</u>	<u>3,449,146</u>	<u>3,098,037</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 553,337</u>	<u>\$ 521,615</u>	<u>\$ (142,528)</u>	<u>\$ (413,374)</u>	<u>\$ 410,809</u>	<u>\$ 108,241</u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Essexville completed its year, its governmental funds reported a total fund balance of \$1,620,155 which is more than the \$1,447,460 total fund balance at June 30, 2012.

- The General Fund, the operating fund for the City, ended fiscal year 2013 with a \$1,102,255 balance compared to the prior year ending fund balance of \$1,007,710.
- The Major Street Fund Balance increased by \$30,098.
- The Local Street Fund Balance decreased by \$6,756.
- The Debt Service Fund Balance increased by \$2,685.
- The DDA Fund increased by \$47,288.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

As the City of Essexville completed its year, its Business-Type Funds reported total net position of \$1,279,305, which is less than the \$1,421,833 total fund balances at June 30, 2012.

- Sewer Fund net position decreased by \$163,076.
- Water Fund net position increased by \$30,739.
- Rubbish and Trash Fund net position decreased by \$10,191.

**BUDGETARY HIGHLIGHTS**

During the year ended June 30, 2013, the City amended the budget three (3) times. The amendments were done for line item changes and to cover some unexpected costs.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$2,488,464 (net of accumulated depreciation) at June 30, 2013. Capital assets for business-type activities totaled \$8,572,654 (net of accumulated depreciation) at June 30, 2013. The notes to the financial statements contain more detail information about the City's capital assets.

Governmental activities major capital outlays included a roof to City Hall. For Business-Type Activities, there were additions in the Sewer Fund for remaining retrofit of the wastewater treatment facility.

**ECONOMIC FACTORS**

Elected and appointed officials must consider many factors in the preparation and the adoption of the City's annual budget. One important factor affecting the City's budget is the State of Michigan's fiscal health, because a significant source of revenue for the City's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the City has seen a reduction in state shared revenue. The consequences of this revenue reduction is and will be in the future a reduction in services funded by the General Fund with public safety services at risk in the near future without additional state or local revenue to the General Fund.

**LONG-TERM DEBT**

At year end the City had \$10,194,764 in outstanding bonds and loans. All debt in the business-type and governmental-activities is detailed below:

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**Infrastructure Bonds** - In 1999 local voters authorized the City Council to sell up to \$5,000,000 of general obligation bonds restricted for improvements to the City's water, sewer and storm water infrastructure. These bonds were sold in three series: \$2,000,000 (January 11, 2000), \$1,500,000 (February 27, 2001) and \$1,500,000 (February 28, 2002). On February 28, 2011, the City refinanced the three series of infrastructure bonds to combine them into one bond.

<b><u>Combined Series - 2000, 2001, 2002 (Original Bond Amount)</u></b>	
Balance June 30, 2013	\$2,075,000

**Brownfield Revitalization Loan** - In the year 2000, the City received \$ 100,983 from the State of Michigan Department of Environmental Quality to develop land that was a landfill. The city is obligated to repay the loan, which began July 1, 2005. The amount due as of June 30, 2013 is \$ \$22,033.

**Independent Bank** – The City financed the improvements to the new DPW building by obtaining financing from Independent Bank thru Act 99 in the amount of \$ 262,468. The amount due as of June 30, 2013 is \$42,731. The debt is recorded in the City's Motor Vehicle and Equipment internal service fund.

**Sewage Disposal Bonds Series 2010** - At the fiscal year ended June 30, 2010, the City borrowed funds through U.S. Department of Agriculture Rural Development to construct a new raw wastewater pump station, demolition of abandoned treatment plant, to construct a force main to connect the City's sewage disposal system to the Bay County Treatment Facility and other improvements. Total amounts of bonds authorized for the project totaled \$7,485,000. As of June 30, 2013, the total outstanding on bonds was \$7,470,000.

**Sewer Fund** - State Revolving Fund ("SFR") loan administered by the Michigan Department of Environmental Quality to construct mandated improvements at the City's wastewater treatment plant.

<b><u>SRF Loan 1997</u></b>	
Balance June 30, 2013	\$ 585,000

Additional indebtedness schedules are included in the Additional Information, which provides a detail payment schedule for each debt.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact the City of Essexville, 1104 Woodside Avenue, Essexville, MI 48732-1627.

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF NET POSITION  
June 30, 2013

	Primary Government		
	Governmental Activities	Business -Type Units	Total
<b>ASSETS:</b>			
Cash	\$ 1,318,069.88	\$ 469,839.70	\$ 1,787,909.58
Investments	350,000.00	0.00	350,000.00
Receivables	55,490.18	171,453.93	226,944.11
Receivable from state	91,352.89	0.00	91,352.89
Internal balances	3,264.00	(3,264.00)	0.00
Land held for sale	0.00	0.00	0.00
Inventory and prepaids	0.00	0.00	0.00
Restricted cash	0.00	259,974.41	259,974.41
Capital assets:			
Land	802,150.00	0.00	802,150.00
Buildings and improvements	1,127,382.21	0.00	1,127,382.21
Machinery and equipment	1,215,092.70	357,132.99	1,572,225.69
Infrastructure	769,825.10	0.00	769,825.10
Water and sewer systems	0.00	8,839,982.57	8,839,982.57
Other assets	60,000.00	0.00	60,000.00
Accumulated depreciation	<u>(1,485,985.93)</u>	<u>(624,461.18)</u>	<u>(2,110,447.11)</u>
Total Assets	4,306,641.03	9,470,658.42	13,777,299.45
<b>LIABILITIES:</b>			
Accounts payable	17,896.67	133,683.14	151,579.81
Accrued expenses	11,091.68	2,670.11	13,761.79
Accrued interest	14,409.38	0.00	14,409.38
Deferred revenue	0.00	0.00	0.00
Due to other governmental units	0.00	0.00	0.00
Other net postemployment obligation	286,555.00	0.00	286,555.00
Notes and bonds payable			
Amount due within one year	518,624.56	115,000.00	633,624.56
Amount due more than one year	<u>1,621,139.11</u>	<u>7,940,000.00</u>	<u>9,561,139.11</u>
Total Liabilities	2,469,716.40	8,191,353.25	10,661,069.65
<b>NET POSITION:</b>			
Investment in capital assets net of related debt	334,291.03	777,628.79	1,111,919.82
Restricted for streets	178,139.03	0.00	178,139.03
Restricted for debt service	47,095.54	0.00	47,095.54
Restricted for public safety	11,632.52	0.00	11,632.52
Unrestricted	<u>1,265,766.51</u>	<u>501,676.38</u>	<u>1,767,442.89</u>
Total Net Position	<u>\$ 1,836,924.63</u>	<u>\$ 1,279,305.17</u>	<u>\$ 3,116,229.80</u>

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

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants/Contributions	Capital Grants/Contributions	Governmental Activities	Business-Type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
<b>GOVERNMENTAL ACTIVITIES:</b>							
General government	\$ 279,818.00	\$ 57,598.38	\$ 2,121.90	\$ 0.00	\$ (220,097.72)	\$ 0.00	\$ (220,097.72)
Public safety	513,655.92	15,133.00	1,185.07	0.00	(497,337.85)	0.00	(497,337.85)
Public works	61,989.60	0.00	11,086.96	0.00	(50,902.64)	0.00	(50,902.64)
Streets and highways	231,277.11	277.50	228,188.39	0.00	(2,811.22)	0.00	(2,811.22)
Community and economic development	70,560.55	0.00	0.00	0.00	(70,560.55)	0.00	(70,560.55)
Recreational and cultural	21,933.75	0.00	0.00	45,000.00	23,066.25	0.00	23,066.25
Unallocated fringes and retirement	299,200.47	0.00	0.00	0.00	(299,200.47)	0.00	(299,200.47)
Unallocated depreciation	53,739.19	0.00	0.00	0.00	(53,739.19)	0.00	(53,739.19)
Interest on debt	67,176.09	0.00	0.00	0.00	(67,176.09)	0.00	(67,176.09)
Total Governmental Activities	1,599,350.68	73,008.88	242,582.32	45,000.00	(1,238,759.48)	0.00	(1,238,759.48)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Sewer	847,781.27	866,288.21	55,764.77	0.00	0.00	74,271.71	74,271.71
Water	451,469.27	481,899.70	0.00	0.00	0.00	30,430.43	30,430.43
Refuse	312,224.32	269,082.21	0.00	0.00	0.00	(43,142.11)	(43,142.11)
Interest on debt	238,320.46	0.00	0.00	0.00	0.00	(238,320.46)	(238,320.46)
Total Business-Type Activities	1,849,795.32	1,617,270.12	55,764.77	0.00	0.00	(176,760.43)	(176,760.43)
Total Primary Government	\$ 3,449,146.00	\$ 1,690,279.00	\$ 298,347.09	\$ 45,000.00	(1,238,759.48)	(176,760.43)	(1,415,519.91)
<b>GENERAL PURPOSE REVENUES:</b>							
Property taxes					1,454,648.02	32,923.12	1,487,571.14
State shared revenues					317,666.00	0.00	317,666.00
Unrestricted investment income					13,325.46	1,309.33	14,634.79
Loss on asset disposal					0.00	0.00	0.00
Other miscellaneous revenues					6,456.63	0.00	6,456.63
Transfers					0.00	0.00	0.00
Total General Purpose Revenues and Transfers					1,792,096.11	34,232.45	1,826,328.56
Change in Net Position					553,336.63	(142,527.98)	410,808.65
Net Position - Beginning of Year					1,283,588.00	1,421,833.15	2,705,421.15
Net Position - End of Year					\$ 1,836,924.63	\$ 1,279,305.17	\$ 3,116,229.80

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

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2013

	MAJOR FUNDS					NONMAJOR GOVERNMENTAL	TOTAL
	GENERAL	MAJOR STREETS	LOCAL STREETS	DEBT SERVICE	DDA		
<b>ASSETS:</b>							
Cash and certificates of deposit	\$ 695,454.43	\$ 59,037.11	\$ 83,251.46	\$ 36,400.40	\$ 261,025.84	\$ 11,632.52	\$ 1,146,801.76
Investments	350,000.00	0.00	0.00	0.00	0.00	0.00	350,000.00
Other receivables	4,127.92	0.00	0.00	0.00	0.00	0.00	4,127.92
Taxes receivable	19,625.80	0.00	0.00	10,695.14	21,041.32	0.00	51,362.26
Prepaid expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due from other funds	3,264.00	0.00	0.00	0.00	0.00	0.00	3,264.00
Due from state	53,571.00	27,732.97	10,048.92	0.00	0.00	0.00	91,352.89
<b>TOTAL ASSETS</b>	<b>\$ 1,126,043.15</b>	<b>\$ 86,770.08</b>	<b>\$ 93,300.38</b>	<b>\$ 47,095.54</b>	<b>\$ 282,067.16</b>	<b>\$ 11,632.52</b>	<b>\$ 1,646,908.83</b>
<b>LIABILITIES:</b>							
Accounts payable	\$ 10,858.05	\$ 0.00	\$ 353.00	\$ 0.00	643.29	\$ 0.00	\$ 11,854.34
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payroll withholdings	4,581.63	0.00	0.00	0.00	0.00	0.00	4,581.63
Accrued expenses	8,348.59	807.47	770.96	0.00	391.34	0.00	10,318.36
Due to other funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL LIABILITIES</b>	<b>23,788.27</b>	<b>807.47</b>	<b>1,123.96</b>	<b>0.00</b>	<b>1,034.63</b>	<b>0.00</b>	<b>26,754.33</b>
<b>FUND BALANCES:</b>							
Nonspendable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Restricted for streets	0.00	85,962.61	92,176.42	0.00	0.00	0.00	178,139.03
Restricted for debt service	0.00	0.00	0.00	47,095.54	0.00	0.00	47,095.54
Restricted for DDA	0.00	0.00	0.00	0.00	281,032.53	0.00	281,032.53
Restricted for Inspections	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Restricted for justice training	0.00	0.00	0.00	0.00	0.00	11,632.52	11,632.52
Committed to	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned for	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unassigned	1,102,254.88	0.00	0.00	0.00	0.00	0.00	1,102,254.88
<b>Total Fund Balances</b>	<b>1,102,254.88</b>	<b>85,962.61</b>	<b>92,176.42</b>	<b>47,095.54</b>	<b>281,032.53</b>	<b>11,632.52</b>	<b>1,620,154.50</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,126,043.15</b>	<b>\$ 86,770.08</b>	<b>\$ 93,300.38</b>	<b>\$ 47,095.54</b>	<b>\$ 282,067.16</b>	<b>\$ 11,632.52</b>	<b>\$ 1,646,908.83</b>

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

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION  
June 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,620,154.50

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 therefore are not reported in the Governmental Funds  
Balance Sheet:

Bond refinancing costs	60,000.00
Capital assets at cost	2,314,382.67
Accumulated depreciation and amortization	(464,807.30)

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds

Loan payable	(22,033.06)
Bonds payable	(2,075,000.00)
Accrued interest	(14,409.38)
Net postemployment benefit obligation	(286,555.00)

An internal service fund is used by management to charge the cost of  
equipment use to individual funds. The assets and liabilities of the  
internal service fund are included in the Governmental Activities in  
the Statement of Net Position

Net position of internal service fund	<u>705,192.20</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 1,836,924.63

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

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2013

	GENERAL	MAJOR STREETS	LOCAL STREETS	DEBT SERVICE	DDA	NONMAJOR GOVERNMENTAL	TOTAL
<b>REVENUES:</b>							
Property taxes	\$ 868,985.12	\$ 0.00	\$ 0.00	\$ 470,557.01	\$ 115,105.89	\$ 0.00	\$ 1,454,648.02
Licenses and permits	50,921.19	0.00	0.00	0.00	0.00	0.00	50,921.19
Federal grants	0.00	0.00	0.00	0.00	0.00	0.00	0.00
State grants	375,203.86	167,496.89	60,691.50	0.00	0.00	1,185.07	604,577.32
Contributions from other units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges for services	15,490.42	0.00	0.00	0.00	0.00	0.00	15,490.42
Fines and forfeits	6,319.77	0.00	0.00	0.00	0.00	0.00	6,319.77
Interest and rentals	12,040.61	135.92	149.50	115.22	861.59	22.62	13,325.46
Other revenue	7,127.63	277.50	0.00	0.00	0.00	0.00	7,405.13
<b>Total Revenues</b>	<b>1,336,088.60</b>	<b>167,910.31</b>	<b>60,841.00</b>	<b>470,672.23</b>	<b>115,967.48</b>	<b>1,207.69</b>	<b>2,152,687.31</b>
<b>EXPENDITURES:</b>							
General government	265,022.23	0.00	0.00	0.00	10,545.71	0.00	275,567.94
Public safety	496,510.70	0.00	0.00	0.00	0.00	2,270.00	498,780.70
Public works	61,989.60	112,812.49	92,597.34	0.00	0.00	0.00	267,399.43
Community and economic development	12,426.99	0.00	0.00	0.00	58,133.56	0.00	70,560.55
Cultural and recreation	19,808.72	0.00	0.00	0.00	0.00	0.00	19,808.72
Other	303,724.47	0.00	0.00	0.00	0.00	0.00	303,724.47
Capital outlay	64,773.57	0.00	0.00	0.00	0.00	0.00	64,773.57
Debt service - principal	10,654.23	0.00	0.00	405,000.00	0.00	0.00	415,654.23
Debt service - interest	735.46	0.00	0.00	62,987.50	0.00	0.00	63,722.96
<b>Total Expenditures</b>	<b>1,235,645.97</b>	<b>112,812.49</b>	<b>92,597.34</b>	<b>467,987.50</b>	<b>68,679.27</b>	<b>2,270.00</b>	<b>1,979,992.57</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>100,442.63</b>	<b>55,097.82</b>	<b>(31,756.34)</b>	<b>2,684.73</b>	<b>47,288.21</b>	<b>(1,062.31)</b>	<b>172,694.74</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond proceeds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfer from other funds	1,102.16	0.00	25,000.00	0.00	0.00	0.00	26,102.16
Transfer to other funds	0.00	(25,000.00)	0.00	0.00	0.00	(1,102.16)	(26,102.16)
<b>Total Other Financing Sources (Uses)</b>	<b>1,102.16</b>	<b>(25,000.00)</b>	<b>25,000.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(1,102.16)</b>	<b>0.00</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>101,544.79</b>	<b>30,097.82</b>	<b>(6,756.34)</b>	<b>2,684.73</b>	<b>47,288.21</b>	<b>(2,164.47)</b>	<b>172,694.74</b>
<b>FUND BALANCE - July 1, 2012</b>	<b>1,000,710.09</b>	<b>55,864.79</b>	<b>98,932.76</b>	<b>44,410.81</b>	<b>233,744.32</b>	<b>13,796.99</b>	<b>1,447,459.76</b>
<b>FUND BALANCE - June 30, 2013</b>	<b>\$ 1,102,254.88</b>	<b>\$ 85,962.61</b>	<b>\$ 92,176.42</b>	<b>\$ 47,095.54</b>	<b>\$ 281,032.53</b>	<b>\$ 11,632.52</b>	<b>\$ 1,620,154.50</b>

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

CITY OF ESSEXVILLE  
Essexville, Michigan

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 172,694.74

Amounts reported for Governmental Activities in the Statement  
of Activities are different because -

Governmental funds report capital outlays as expenditures  
while in the Statement of Activities, these costs are allocated  
over their estimated lives as depreciation expense.

Capital outlay	64,773.57
Less depreciation expense	(53,739.19)
Gain or loss on disposals of capital assets	0.00

Governmental funds report the proceeds of debt as a financial resource in  
the fund financial statements. The repayment of debt is an outlay of  
current fund resources. Neither transaction has any effect on net position  
in the government wide statements.

Increase in accrued interest	(3,453.13)
Principal payments	415,654.23
Decrease in other post employment obligation	4,524.00

An internal service fund is used by management to charge the  
net costs of equipment use to individual funds. The net cost  
of the internal service fund is reported in the governmental  
activities.

(47,117.59)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 553,336.63

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

CITY OF ESSEXVILLE  
Essexville, Michigan

PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
June 30, 2013

	Business-Type Activities				Governmental Activities Internal Service
	Major Enterprise Funds				
	Sewer Fund	Water Fund	Rubbish and Trash Fund	Total	
<b>ASSETS:</b>					
Current Assets:					
Cash	\$ 307,114.71	\$ 161,116.62	\$ 1,608.37	\$ 469,839.70	\$ 171,268.12
Accounts receivable	93,484.35	48,077.46	28,695.03	170,256.84	0.00
Delinquent taxes receivable	0.00	0.00	1,197.09	1,197.09	0.00
Prepaid expense	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	0.00	0.00	0.00	0.00
Due from other funds	0.00	0.00	0.00	0.00	0.00
Total Current Assets	<u>400,599.06</u>	<u>209,194.08</u>	<u>31,500.49</u>	<u>641,293.63</u>	<u>171,268.12</u>
Noncurrent Assets:					
Restricted cash	259,974.41	0.00	0.00	259,974.41	0.00
Capital Assets:					
Land and improvements	0.00	0.00	0.00	0.00	0.00
Buildings and improvements	0.00	0.00	0.00	0.00	525,221.00
Equipment	166,589.96	190,543.03	0.00	357,132.99	1,074,846.34
Water and sewer systems	8,479,819.48	360,163.09	0.00	8,839,982.57	0.00
Accumulated depreciation	(440,379.16)	(184,082.02)	0.00	(624,461.18)	(1,021,178.63)
Construction in progress	0.00	0.00	0.00	0.00	0.00
Total Noncurrent Assets	<u>8,466,004.69</u>	<u>366,624.10</u>	<u>0.00</u>	<u>8,832,628.79</u>	<u>578,888.71</u>
Total Assets	8,866,603.75	575,818.18	31,500.49	9,473,922.42	750,156.83
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	91,229.14	22,330.73	20,123.27	133,683.14	1,460.70
Due to other governmental units	0.00	0.00	0.00	0.00	0.00
Due to other funds	3,264.00	0.00	0.00	3,264.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00
Accrued expenses	985.91	1,319.10	365.10	2,670.11	773.32
Current portion - revenue bonds payable	115,000.00	0.00	0.00	115,000.00	42,730.61
Total Current Liabilities	<u>210,479.05</u>	<u>23,649.83</u>	<u>20,488.37</u>	<u>254,617.25</u>	<u>44,964.63</u>
Noncurrent Liabilities:					
Revenue bonds/note payable	<u>7,940,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>7,940,000.00</u>	<u>0.00</u>
Total Noncurrent Liabilities	<u>7,940,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>7,940,000.00</u>	<u>0.00</u>
Total Liabilities	8,150,479.05	23,649.83	20,488.37	8,194,617.25	44,964.63
<b>NET POSITION:</b>					
Invested in capital assets net of related debt	411,004.69	366,624.10	0.00	777,628.79	536,158.10
Unrestricted	<u>305,120.01</u>	<u>185,544.25</u>	<u>11,012.12</u>	<u>501,676.38</u>	<u>169,034.10</u>
Total Net Position	<u>\$ 716,124.70</u>	<u>\$ 552,168.35</u>	<u>\$ 11,012.12</u>	<u>\$ 1,279,305.17</u>	<u>\$ 705,192.20</u>

Reconciliation of Government Wide Statement of Net Position:

Net Position of Business-Type Activities \$ 1,279,305.17

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

CITY OF ESSEXVILLE  
Essexville, Michigan

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year Ended June 30, 2013

	Business-Type Activities				Governmental
	Major Enterprise Funds				Activities
	Sewer Fund	Water Fund	Refuse Fund	Total	Internal Service
<b>OPERATING REVENUES:</b>					
Charges for services					
Water charges	\$ 0.00	\$ 473,186.37	\$ 0.00	\$ 473,186.37	\$ 0.00
Sewer charges	849,150.81	0.00	0.00	849,150.81	0.00
Water hydrant rental	0.00	0.00	0.00	0.00	0.00
Property taxes	0.00	0.00	0.00	0.00	0.00
Refuse charges	0.00	0.00	263,936.38	263,936.38	0.00
Rental income	0.00	0.00	0.00	0.00	196,916.99
Late payment fees	16,976.99	8,713.33	5,145.83	30,836.15	0.00
Miscellaneous	160.41	0.00	0.00	160.41	21,956.25
<b>Total Operating Revenues</b>	<b>866,288.21</b>	<b>481,899.70</b>	<b>269,082.21</b>	<b>1,617,270.12</b>	<b>218,873.24</b>
<b>OPERATING EXPENSES:</b>					
Salaries	61,871.28	77,567.33	17,567.83	157,006.44	32,329.28
Payroll taxes	4,395.70	5,685.29	1,526.84	11,607.83	2,362.39
Water purchases	0.00	227,642.53	0.00	227,642.53	0.00
Chemicals	3,901.85	0.00	0.00	3,901.85	0.00
Supplies	13,499.33	13,505.27	302.17	27,306.77	65,478.20
Retirement	13,546.29	16,247.09	6,804.73	36,598.11	9,840.75
Contractual services	363,511.89	10,279.80	243,858.85	617,650.54	11,339.04
Insurance	9,623.00	3,466.00	0.00	13,089.00	10,504.00
Office supplies	1,225.08	0.00	0.00	1,225.08	1,570.00
Repairs and maintenance	13,685.88	0.00	0.00	13,685.88	10,529.77
Utilities	32,716.29	0.00	0.00	32,716.29	15,900.44
Fringe benefits	49,904.75	44,788.03	21,242.29	115,935.07	23,208.00
Equipment rental	21,938.49	18,583.57	17,956.66	58,478.72	0.00
Administrative	4,233.69	0.00	2,964.95	7,198.64	0.00
Rent	12,500.00	12,500.00	0.00	25,000.00	0.00
Other costs	3,332.58	1,424.05	0.00	4,756.63	467.31
Depreciation	237,895.17	19,780.31	0.00	257,675.48	79,072.48
<b>Total Operating Expenses</b>	<b>847,781.27</b>	<b>451,469.27</b>	<b>312,224.32</b>	<b>1,611,474.86</b>	<b>262,601.66</b>
<b>Operating Income</b>	<b>18,506.94</b>	<b>30,430.43</b>	<b>(43,142.11)</b>	<b>5,795.26</b>	<b>(43,728.42)</b>
<b>NONOPERATING REVENUES(EXPENSES):</b>					
Property taxes	0.00	0.00	32,923.12	32,923.12	0.00
Interest Income	973.18	308.20	27.95	1,309.33	393.38
Interest credit on build America bonds	55,764.77	0.00	0.00	55,764.77	0.00
Disposal of capital asset	0.00	0.00	0.00	0.00	0.00
Interest expense	(238,320.46)	0.00	0.00	(238,320.46)	(3,782.55)
<b>Total Nonoperating Revenues(Expenses)</b>	<b>(181,582.51)</b>	<b>308.20</b>	<b>32,951.07</b>	<b>(148,323.24)</b>	<b>(3,389.17)</b>
<b>Income Before Contributions and Transfers</b>	<b>(163,075.57)</b>	<b>30,738.63</b>	<b>(10,191.04)</b>	<b>(142,527.98)</b>	<b>(47,117.59)</b>
Transfers in	0.00	0.00	0.00	0.00	0.00
Transfers out	0.00	0.00	0.00	0.00	0.00
<b>Change in Net Position</b>	<b>(163,075.57)</b>	<b>30,738.63</b>	<b>(10,191.04)</b>	<b>(142,527.98)</b>	<b>(47,117.59)</b>
<b>Net Position Beginning of Year</b>	<b>879,200.27</b>	<b>521,429.72</b>	<b>21,203.16</b>	<b>1,421,833.15</b>	<b>752,309.79</b>
<b>Net Position End of Year</b>	<b>\$ 716,124.70</b>	<b>\$ 552,168.35</b>	<b>\$ 11,012.12</b>	<b>\$ 1,279,305.17</b>	<b>\$ 705,192.20</b>
<b>Change in Net Position Government-Wide Business Activities</b>				<b>\$ (142,527.98)</b>	

The accompanying notes are an integral part of the financial statements.  
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CITY OF ESSEXVILLE  
Essexville, Michigan

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2013

	Business-Type Activities				Governmental Activites Internal Service
	Major Enterprise Funds				
	Sewer Fund	Water Fund	Refuse Fund	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 868,638.18	\$ 470,876.63	\$ 271,102.86	\$ 1,610,617.67	\$ 0.00
Other operating cash receipts	0.00	0.00	0.00	0.00	218,873.24
Cash payments to suppliers for goods and services	(622,395.65)	(367,936.99)	(294,326.29)	(1,284,658.93)	(152,975.20)
Cash payments to employees for services	(60,935.28)	(77,368.15)	(17,937.54)	(156,240.97)	(32,106.04)
Net cash provided (used) by operating activities	<u>185,307.25</u>	<u>25,571.49</u>	<u>(41,160.97)</u>	<u>169,717.77</u>	<u>33,792.00</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:</b>					
Property taxes	0.00	0.00	32,923.12	32,923.12	0.00
Funding of bond restricted cash	0.00	0.00	0.00	0.00	0.00
Net cash provided (used) by noncapital financing activities	<u>0.00</u>	<u>0.00</u>	<u>32,923.12</u>	<u>32,923.12</u>	<u>0.00</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition of capital assets	(262,579.88)	0.00	0.00	(262,579.88)	(44,538.68)
Interest credit on Build America bonds	55,764.77	0.00	0.00	55,764.77	0.00
Proceeds from sale of capital assets	0.00	0.00	0.00	0.00	0.00
Additional bond proceeds	397,000.00	0.00	0.00	397,000.00	0.00
Debt payments					
Interest paid on bonds	(238,320.46)	0.00	0.00	(238,320.46)	(3,782.55)
Principal payments on bonds	(115,000.00)	0.00	0.00	(115,000.00)	(40,785.23)
Net cash provided (used) by capital and related financing activities	<u>(163,135.57)</u>	<u>0.00</u>	<u>0.00</u>	<u>(163,135.57)</u>	<u>(89,106.46)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest on investments	<u>973.18</u>	<u>308.20</u>	<u>27.95</u>	<u>1,309.33</u>	<u>393.38</u>
Net increase (decrease) in cash	23,144.86	25,879.69	(8,209.90)	40,814.65	(54,921.08)
Cash beginning of year	<u>283,969.85</u>	<u>135,236.93</u>	<u>9,818.27</u>	<u>429,025.05</u>	<u>226,189.20</u>
Cash end of year	<u>\$ 307,114.71</u>	<u>\$ 161,116.62</u>	<u>\$ 1,608.37</u>	<u>\$ 469,839.70</u>	<u>\$ 171,268.12</u>
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Income (loss) from operations	\$ 18,506.94	\$ 30,430.43	\$ (43,142.11)	\$ 5,795.26	\$ (43,728.42)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:					
Depreciation	237,895.17	19,780.31	0.00	257,675.48	79,072.48
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(2,349.97)	(2,309.74)	2,020.65	(2,639.06)	0.00
Increase (decrease) in accounts payable	(7,093.92)	(22,528.69)	(369.71)	(29,992.32)	(1,775.30)
Increase (decrease) in accrued expenses	<u>(61,650.97)</u>	<u>199.18</u>	<u>330.20</u>	<u>(61,121.59)</u>	<u>223.24</u>
Net Cash Provided (Used) in Operating Activities	<u>\$ 185,307.25</u>	<u>\$ 25,571.49</u>	<u>\$ (41,160.97)</u>	<u>\$ 169,717.77</u>	<u>\$ 33,792.00</u>

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

CITY OF ESSEXVILLE  
Essexville, Michigan

FIDUCIARY FUNDS - AGENCY FUNDS  
 STATEMENT OF NET POSITION  
June 30, 2013

	<u>Employee Benefit Fund Type Fringe Benefit Fund</u>		<u>Agency Fund Type Tax Collection Fund</u>
<b>ASSETS:</b>			
Cash and certificates of deposit	\$ 63,799.59	\$	10.65
Due from general fund	0.00		0.00
Due from water fund	0.00		0.00
	63,799.59		10.65
Total Assets	63,799.59		10.65
<b>LIABILITIES:</b>			
Due to other funds	0.00		10.65
	0.00		10.65
Total Liabilities	0.00		10.65
<b>Net Position</b>			
Held in trust for benefits	\$ 63,799.59	\$	0.00
	63,799.59		0.00

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

CITY OF ESSEXVILLE  
Essexville, Michigan

FIDUCIARY FUND - FRINGE BENEFIT FUND  
 STATEMENT OF CHANGES IN NET POSITION  
June 30, 2013

		Employee Benefit Fund Type <u>Separation Pay Fund</u>
<b>ADDITIONS</b>		
Employer Contributions		
General Fund	\$	12,518.50
Sewer Fund		1,132.03
Motor Vehicle Fund		1,114.13
Rubbish and Trash Fund		835.59
Major Street Fund		722.96
Local Street Fund		828.82
DDA Fund		(107.78)
Water Fund		<u>1,633.39</u>
		18,677.64
Investment Income		
Interest		<u>93.59</u>
Total Additions		18,771.23
<b>DEDUCTIONS</b>		
Decrease in Available Employee Benefits		<u>8,784.99</u>
Change in Net Position		9,986.24
Net Position Beginning of Year		<u>53,813.35</u>
Net Position End of Year	\$	<u><u>63,799.59</u></u>

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

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

A: DESCRIPTION OF REPORTING ENTITY:

The City of Essexville is located in Bay County and operates under an elected City Council (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B: REPORTING ENTITY:

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

A *blended component unit* is a legally separate entity from the Local Governmental Unit, but is so intertwined with the unit that it is, in substance, the same as the Local Governmental Unit. It is reported as part of the Local Governmental Unit and blended into the appropriate fund types and account groups.

Based on the aforementioned criteria the City of Essexville has blended its Downtown Development Authority into the financial statements. The Downtown Development Authority is appointed to preside over this specific district, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization, and historic preservation within this area.

Members of the board are approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

C: BASIS OF PRESENTATION:

**Government-Wide Statements**

The *government-wide financial statements* (the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the City. The effect of the interfund activity, within the Governmental and Business-Type Activities columns, has been removed from these statements. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for Governmental Funds, Proprietary Funds, and Fiduciary Funds. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**Major Government Funds**

***General Fund –***

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

***Major Street Fund –***

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

***Local Street Fund –***

Local Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of local roads within the City.

***Downtown Development Authority Fund –***

The Downtown Development Authority Fund is used to account for revenues and expenditures related to the economic development, neighborhood revitalization, historic preservation, and capital improvements within its district, funded by various grants and mileage increases.

***Debt Service Fund –***

This fund is used to accumulate tax revenues for purposes of making interest and principal payments on General Obligation bonds.

**Major Proprietary Funds**

Enterprise Funds:

Enterprise Funds are used to account for operations:

- a. that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- b. where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

***Water Fund –***

Water Fund is used to account for the provision of water to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers

***Sewer Fund –***

Sewer Fund is used to account for the revenue and expenses for the operation of a sewer system for the residents of the City. Activities of the fund include administration, operation and maintenance of the sewer lines and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

***Rubbish and Trash Fund –***

Rubbish and Trash Fund accounts for the activities of garbage collection and financed primarily by a user charge for the provision of those services.

**Fiduciary Funds**

Fiduciary, or Trust and Agency, Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust, Nonexpendable Trust, Pension Trust, and Agency Funds. Nonexpendable Trust and Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

***Fringe Benefit Fund –***

The Fringe Benefit Fund accounts for assets held by the City for funding of employee sick time and vacation benefits. The amounts do not involve the measurement of results of operations.

***Tax Collection Fund –***

Tax Collection Fund is an agency fund to account for collection of property taxes of other local units.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the Government-Wide and Proprietary Fund Financial Statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

As a general rule, the effect of inter-fund activity has been eliminated from the Government-Wide Financial Statements. Exceptions to this general rule are charges between the City's water, sewer and refuse functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (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. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses for the Proprietary Funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D: Measurement Focus/Basis of Accounting:**

*Measurement focus* refers to what is being measured; *basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. *Basis of accounting* relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-Wide Statements and Fund Financial Statements for Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

**E: CAPITAL ASSETS:**

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000. 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. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25-40 years
Infrastructure	20-40 years
Land improvements	10-20 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

**F: FUND EQUITY:**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**G: PROPERTY TAXES:**

The City's property taxes are levied and become a lien each July 1<sup>st</sup>, based on the taxable valuation of property located in the City as of the preceding December 31<sup>st</sup>. These taxes are due on August 31<sup>st</sup> or with the final collection date of March 2<sup>nd</sup> before they are added to the County's delinquent tax rolls. The City's property tax revenues are recognized as revenues in the fiscal year levied to the extent they are measurable and available.

The taxable valuation of City properties totaled \$76,241,213 Ad Valorem taxes levied on this valuation consisted of 11.25 mills for City operations; .4500 mills for trash collection; 1.0000 mills for the Downtown Development Authority; and 6.4300 mills for the general obligation bond issues.

**H: COMPENSATED ABSENCES:**

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay at January 1 of each year. An employee is eligible for his or her first vacation when twelve months have elapsed dating from his or her first day of employment. Subsequent vacations may be taken any time after January 1 of each year. The allowed vacation time for each employee is based upon years of service. Up to two weeks of vacation may be carried over through June of the following year subject to approval by the City Manager. On January 1 of each year, each employee is credited with eighty hours of paid sick leave. The first pay period in December of each year, each employee shall be paid for one-half of all unused sick leave that the employee was credited with on January 1 of that calendar year, or as prorated for new hires during the year. If an employee does not use any of the eighty hours of paid sick leave which was credited to the employee on January 1 of that calendar year, the employee shall be paid a total of forty-eight hours for the employee's unused sick leave. Sick leave may not be accumulated or carried over from year to year.

The Fringe Benefit Fund was established to provide cash severance payments to any employee, upon termination of his/her employment, of any unused portion of vacation that he or she was entitled on January 1 of that year. Vacation pay is not allowed to be carried over and is earned on January 1 of each year and any liability related to it at June 30, 2013 is included in the Fringe Benefit Fund.

**I: RESTRICTED CASH:**

The City's 2013 sewage disposal bonds require that the City maintain a bond reserve account and a repair and replacement account. The bond reserve account is designated for bond principal and interest payments requires \$38,400 deposited into the account each

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**I: RESTRICTED CASH (Continued):**

June 30th until there is accumulated a sum of \$384,000. Total funds in the bond reserve account at June 30, 2013 are \$85,637. These funds are restricted to be used for future debt payments.

The repair and replacement account required an initial deposit of \$100,000 into the fund. Each June 30th, the amount of \$33,333 is to be deposited into the repair and replacement account until the sum of \$384,000 has been deposited in the bond reserve account after which the amount of \$71,733 shall be deposited annually in the repair and replacement account until the bonds are paid in full. Monies in the repair and replacement account are restricted to be used only to pay for emergency maintenance of the system, extensions to systems facilities and replacement of system assets having useful lives ending prior to the final maturity of the bonds. Total funds in the repair and replacement account at June 30, 2013 totaled \$174,337. The City failed to fully fund the bond reserve and repair accounts for the year ended June 30, 2013 as required by the bond agreement.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**A: BUDGETARY INFORMATION:**

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

- The City Manager submits to the City Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to June 1, the budget is legally enacted by adoption of the City Council.
- The City Manager is authorized to transfer certain budgeted amounts between departments within any fund. Any revisions that alter the total expenditure of any fund must be approved by the City Council. The legal level of the control is at the activity level.
- Formal budgetary integration is employed as a management control device during the year for all funds.
- Budgets for the General and Special Revenue Funds are prepared on a modified accrual basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

- All annual appropriations lapse at fiscal year-end.

**B: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS:**

During the year, the City did not incur any expenditures that were in excess of the amounts budgeted.

Fund Deficits – The City had no accumulated fund balance deficits.

**NOTE 3. LONG-TERM DEBT:**

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Annual Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Deductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<b>GOVERNMENTAL ACTIVITIES</b>						
Refunding of 2000, 2001, and 2002 G.O. Bonds	2 – 3.25	405,000-560,000	\$ 2,480,000	\$ (405,000)	\$ 2,075,000	\$ 465,000
Loan – Independent Bank	4.45	34,189-45,656	\$ 83,516	\$ (40,785)	\$ 42,731	\$ 42,731
Revitalization Loan	2.25	9,948-11,139	<u>\$ 32,687</u>	<u>\$ (10,654)</u>	<u>\$ 22,033</u>	<u>\$ 10,894</u>
Total Governmental Activities			<u>\$ 2,596,203</u>	<u>\$ (456,439)</u>	<u>\$ 2,139,764</u>	<u>\$ 518,625</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
<u>Sewer Fund</u>						
SRF Loan payable	2.25	90,000-120,000	\$ 695,000	\$ (110,000)	\$ 585,000	\$ 110,000
2010 Sewage Disposal Bonds	3.25	5,000-500,000	<u>\$ 7,078,000</u>	<u>\$ 392,000</u>	<u>\$ 7,470,000</u>	<u>\$ 5,000</u>
Total Business-Type Activities			<u>\$ 7,773,000</u>	<u>\$ 282,000</u>	<u>\$ 8,055,000</u>	<u>\$ 115,000</u>

Annual debt service requirements are detailed in the indebtedness schedules.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 4. CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance July 1</u>	<u>Additions/ Retirements/ Completions</u>	<u>Adjustments</u>	<u>Balance June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 802,150	\$ 0	\$ 0	\$ 802,150
Capital assets being depreciated				
Buildings and improvements	1,086,766	40,616	0	1,127,382
Construction in progress				
Infrastructure	755,582	14,243		769,825
Vehicles, furniture and equipment	1,160,640	54,453	0	1,215,093
Other	<u>60,000</u>	<u>0</u>	<u>0</u>	<u>60,000</u>
Subtotal	3,865,138	109,312	0	3,974,450
Less accumulated depreciation	<u>1,353,174</u>	<u>132,812</u>	<u>0</u>	<u>1,485,986</u>
Net capital assets	<u>\$ 2,511,964</u>	<u>\$ (23,500)</u>	<u>\$ 0</u>	<u>\$ 2,488,464</u>
Business –type activities:				
Capital assets not being depreciated				
Construction in progress	\$ 7,102,983	\$ (7,102,983)	\$ 0	\$ 0
Capital assets being depreciated				
Buildings and improvements	715,834	(715,834)	0	0
Water and sewer distribution systems	758,586	262,580	7,818,817	8,839,983
Furniture and equipment	<u>357,133</u>	<u>0</u>	<u>0</u>	<u>357,133</u>
Subtotal	8,934,536	(7,556,237)	7,818,817	9,197,116
Less accumulated depreciation	<u>366,786</u>	<u>257,675</u>	<u>0</u>	<u>624,461</u>
Net capital assets	<u>\$ 8,567,750</u>	<u>\$ (7,813,912)</u>	<u>\$ 7,818,817</u>	<u>\$ 8,572,655</u>

**NOTE 5. INTERFUND BALANCES AND TRANSFERS:**

The composition of interfund receivable and payable balances at June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer	\$ 3,264

Purpose - Temporary reclassification of expenditures.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 5. INTERFUND BALANCES AND TRANSFERS (continued):**

The composition of inter-fund transfers during the fiscal year ended June 30, 2013 is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Local Street	Major Street	\$ 25,000

Purpose - 50% allowable state transfer to increase local street fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Inspection	\$1,102

Purpose – To eliminate fund.

**NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:**

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. 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; banker's acceptance 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 subdivision 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 six financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

The breakdown between deposits and investments for the City is as follows:

Statement of Net Assets:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and cash equivalents	\$ 1,318,070	\$ 469,840	\$ 63,811	\$ 1,851,721
Investments	<u>350,000</u>	<u>0</u>	<u>0</u>	<u>350,000</u>
Total	<u>\$ 1,668,070</u>	<u>\$ 469,840</u>	<u>\$ 63,811</u>	<u>\$ 2,201,721</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued):**

Deposits and investments:

Bank deposits (checking, savings, and certificates of deposit)	\$ 1,851,471
Cash on hand	250
Investments (securities and stocks)	<u>350,000</u>
Total	<u>\$ 2,201,721</u>

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 the government. At June 30, 2013, the carrying value of deposits owned by the City was \$2,250,276. Approximately \$1,206,533 of the City's bank balance was covered by federal depository insurance. The remaining balance \$1,043,743 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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 depositors.

Custodial Credit Risk of Investments

Custodial credit risk is that risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investments securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of deliver-versus-payment. At year-end, the following is a summary of the City's investments at June 30, 2013:

<u>Type of Investment</u>	<u>Carrying Value</u>
Government-wide:	
U.S Government and Agency Securities	\$ 350,000
Fifth Third Instl Govt Money Market Fund	
Component Unit:	
U.S Government and Agency Securities	<u>0</u>
Total	<u>\$ 350,000</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued):**

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. Short-term funds matched to a specific cash flow requirement shall be invested in securities maturing not more than two (2) years from the date of purchase. Long-term funds (capital projects, debt service, etc.) matched to a specific cash flow requirement may be invested in securities maturing not more than five (5) years from the purchase date.

As of June 30, 2013, average maturities and ratings of the City's investments were as follows:

<u>Type of Investment</u>	<u>Value</u>	<u>Weighted Average Maturity</u>	<u>Moody's Investors Services Rating</u>
Government-wide:			
US Government and Agency Securities:			
Federal Home Loan Banks	200,000	3.54 Years	AAA
Fannie Mae	150,000	1.46 Years	N/A

Credit Risk

State law limits investments to specific governmental securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific identified in the list of authorized investments in the summary of significant accounting policies. Credit risk ratings, when applicable; have been identified above for the City's investments.

Concentration of Credit Risk

The City diversifies its investment portfolio by specific dates, security types and institution so that potential losses of individual securities do not exceed income that would be generated by the remainder of the portfolio.

**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) and certain medical benefits provided to employees.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 7. RISK MANAGEMENT (continued):**

The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool program for workers' compensation, liability and property risk. This insurance provider is a public entity risk pool providing coverage to its members. The City pays an annual premium to this provider, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 8. DEFINED BENEFIT PENSION PLAN:**

**Plan Description**

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan, 48917. MERS was organized pursuant to Public Act 156 of 1851, §12a (MSA5.333(a);MCLA46.12a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1995, the sections of which have been approved by the State Pension Commission.

The City is in an agent/multi-employer defined contribution plan with the Municipal Employees Retirement System (MERS administered by the State of Michigan). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2012. The City's covered payroll for employees covered by MERS for the year ended December 31, 2012 was \$676,183 per the actuarial report. Data on covered versus total payroll was available in the latest actuarial evaluation.

As of December 31, 2012, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	24
Active plan participants:	
Vested members	15
Vested former members	<u>4</u>
Total Active	<u>19</u>
Total Participants	43

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):**

**Funding Policy**

The City is required to contribute at an actuarially determined rate. The rate varies by divisions of employees from 10.10% to 27.84% of annual covered payroll. Employee contributions vary by covered divisions, 3% for general employees, 4.7% for police and fire, and 3% for administrative staff of annual covered payroll.

The obligation to contribute to and maintain the system was established by negotiation with collective bargaining units and city policy for non-union employees.

The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

**Annual Pension Cost**

For the year ended June 30, 2013, the City's annual pension cost of \$127,339 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent non-compounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a ten-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):**

**UNFUNDED ACTUARIAL ACCRUED LIABILITY**

	12/31/2012	12/31/2011
Actuarial Accrued Liability		
Retirees and beneficiaries currently receiving benefits	\$ 4,841,109	\$ 5,004,807
Terminated employees (vested former members not yet receiving benefits)	176,086	162,691
Non-vested terminated employees (pending refunds of accumulated member contributions)	13,441	0
Current employees -	<u>1,473,814</u>	<u>1,392,798</u>
Total Actuarial Accrued Liability	\$ 6,504,450	\$ 6,560,295
Net Assets Available for Benefits at Actuarial Value	<u>4,879,849</u>	<u>5,051,973</u>
(Market Value is \$4,267,232 and \$4,189,675)		
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 1,624,601</u>	<u>\$ 1,508,322</u>

**TREND INFORMATION**

	Year End December 31									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual pension cost (APC)	\$ 46,181	\$ 51,426	\$ 74,309	\$ 87,255	\$ 102,376	\$ 230,900	\$ 108,504	\$ 107,375	\$ 127,339	\$ 127,366
Percentage of APC contributed	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):**

REQUIRED SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Liabilities (AAL) – Entry Age A	Actuarial Accrued Assets B	Unfunded AAL (UAAL) A - B	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/1996	\$2,748,542	\$3,225,812	(477,270)	117%	\$669,328	0%
12/31/1997	3,160,004	3,488,206	(328,202)	110%	704,848	0%
12/31/1998	3,603,692	3,851,639	(247,947)	107%	718,560	0%
12/31/1999	3,912,682	4,310,458	(397,776)	110%	711,515	0%
12/31/2000	4,494,948	4,569,071	(74,123)	102%	735,883	0%
12/31/2001	4,781,430	4,671,965	109,465	98%	729,767	15%
12/31/2002	5,061,625	4,558,265	503,360	90%	762,667	66%
12/31/2003	5,274,509	4,618,497	656,012	88%	800,015	82%
12/31/2004	5,432,911	4,638,435	794,476	85%	827,579	96%
12/31/2005	5,553,653	4,686,841	866,812	84%	833,473	104%
12/31/2006	5,743,465	4,811,131	932,334	84%	871,340	107%
12/31/2007	5,862,434	4,995,228	867,206	85%	903,340	96%
12/31/2008	5,903,620	5,142,151	761,469	87%	836,779	91%
12/31/2009	5,985,390	5,106,408	878,982	85%	906,078	97%
12/31/2010	6,139,049	5,118,960	1,020,089	83%	833,327	122%
12/31/2011	6,560,295	5,051,973	1,508,322	77%	677,837	223%
12/31/2012	6,504,450	4,879,849	1,624,601	75%	676,183	240%

ANNUAL REQUIRED CONTRIBUTIONS

Fiscal Year Beginning	<u>July 1, 2013</u>	<u>July 1, 2014</u>
Annual Required Contribution (ARC)	\$ 172,380	\$ 191,568
Amortization Factor Used – Underfunded Liabilities (27 years)	.06112	.06112

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB):**

**Plan Description**

The City of Essexville administers a single employer defined benefit healthcare plan established by the City Council. In addition to the retirement benefits described in Note 8, the City provides health insurance benefits to certain retirees, which are advance funded on a discretionary basis.

**Funding Policy**

The contribution requirements of Plan members and the City are established and may be amended by the City Council. The City funds retiree health care benefits using the pay-as-you-go (or cash disbursement) method. The City's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits for retired employees. For the year ended June 30, 2013, the City did not contribute to the Plan this year. Retirees receiving benefits made no contributions to the Plan, as none were required.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Entry Age Normal, actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experienced in accordance with the assumptions use, the ARC will increase at approximately the same rate as active member payroll. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The long term rate of investment return used in the valuation was 4%.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued):**

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution and net OPEB cost		\$ 286,555
Contributions made		<u>127,120</u>
Decrease in net OPEB obligation		4,524
Net OPEB obligation, beginning of year		<u>291,079</u>
Net OPEB obligation, end of year		\$ 286,555

**Funded Status and Funding Process**

As of June 30, 2013, the actuarial accrued liability for benefits was \$ 286,555 all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

Schedule of Employer Contributions

Fiscal Year <u>Ending</u>	Estimated Premiums for Retirees	Percentage <u>Contributed</u>
06/30/2013	\$127,120	100%

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued):**

Liabilities and Assets

<u>Valuation Date</u>	Present Value of Future <u>Benefits</u>	Actuarial <u>Accrued Liability</u>	<u>Plan Assets</u>
06/30/13	\$ 4,182,402	\$ 3,606,867	\$ 0

**Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 26 years beginning July 1, 2011.

**NOTE 10. FUND BALANCE CLASSIFICATIONS:**

Beginning with the year ended June 30, 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, or laws or regulations of other governments or is imposed through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by formal City Council resolutions.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 10. FUND BALANCE CLASSIFICATIONS (continued):**

Assigned – 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 restricted or committed.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts have been restricted, committed or assigned.

**NOTE 11. NEW ACCOUNTING STANDARDS:**

The City adopted the provisions of Government Accounting Standards Board (GASB) Statement No 62, No 63, and No 65 as of July 1, 2012.

GASB No 62: The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA" pronouncements.

GASB No 63: This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identified net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 11. NEW ACCOUNTING STANDARDS (continued):**

GASB No 65: This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**NOTE 12. SUBSEQUENT EVENTS:**

Management has evaluated subsequent events and transactions for potential recognition and disclosure through November 15, 2013, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2013

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes	\$ 865,756.00	\$ 865,756.00	\$ 868,985.12	\$ 3,229.12
Licenses and permits	56,775.00	50,775.00	50,921.19	146.19
State and local grants	318,635.00	363,635.00	375,203.86	11,568.86
Contributions from other units	0.00	0.00	0.00	0.00
Fines and fees	8,500.00	8,500.00	6,319.77	(2,180.23)
Charges for services	18,490.00	18,490.00	15,490.42	(2,999.58)
Interest	4,808.00	4,808.00	12,040.61	7,232.61
Rental	0.00	0.00	0.00	0.00
Other revenue	100.00	100.00	7,127.63	7,027.63
<b>Total Revenues</b>	<b>1,273,064.00</b>	<b>1,312,064.00</b>	<b>1,336,088.60</b>	<b>24,024.60</b>
<b>EXPENDITURES:</b>				
General Government -				
Legislative - council	15,808.00	15,808.00	12,719.47	3,088.53
Administration	74,428.00	74,428.00	72,531.49	1,896.51
Elections	6,408.00	8,408.00	8,304.35	103.65
Assessor	22,035.00	22,035.00	21,894.68	140.32
Attorney	32,500.00	19,000.00	18,092.75	907.25
Board of Review	915.00	915.00	814.48	100.52
Clerk	46,219.00	47,000.00	44,133.81	2,866.19
Treasurer	24,431.00	25,431.00	24,437.89	993.11
Forestry	10,263.00	14,953.00	14,532.69	420.31
City Hall	38,640.00	42,640.00	42,178.62	461.38
Accounting & auditing	4,397.00	5,397.00	5,382.00	15.00
Promotional	2,500.00	0.00	0.00	0.00
Public Safety -				
Fire	37,744.00	41,000.00	40,943.54	56.46
Police	468,976.00	468,976.00	442,476.63	26,499.37
Inspections	30,253.00	30,253.00	13,090.53	17,162.47
Public Works -				
Sidewalks	0.00	0.00	0.00	0.00
Street lighting	45,510.00	55,510.00	55,379.07	130.93
Department of public works	13,359.00	10,359.00	6,610.53	3,748.47
Parks and Recreation -				
Parks and recreation	18,267.00	20,267.00	19,808.72	458.28
Community and Economic Development -				
Planning	2,125.00	2,125.00	17.00	2,108.00
Zoning	419.00	12,419.00	12,409.99	9.01
Capital outlay	33,000.00	66,000.00	64,773.57	1,226.43
Debt service	11,399.00	11,399.00	11,389.69	9.31
Other functions - fringe benefits	322,801.00	240,801.00	229,070.82	11,730.18
Other functions - retirement	0.00	75,000.00	74,653.65	346.35
<b>Total Expenditures</b>	<b>1,262,397.00</b>	<b>1,310,124.00</b>	<b>1,235,645.97</b>	<b>74,478.03</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan proceeds	0.00	0.00	0.00	0.00
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to other funds	(8,146.00)	0.00	1,102.16	1,102.16
<b>Net Other Financing Sources (Uses)</b>	<b>(8,146.00)</b>	<b>0.00</b>	<b>1,102.16</b>	<b>(1,102.16)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>2,521.00</b>	<b>1,940.00</b>	<b>101,544.79</b>	<b>99,604.79</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>961,661.00</b>	<b>1,000,710.09</b>	<b>1,000,710.09</b>	<b>0.00</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 964,182.00</b>	<b>\$ 1,002,650.09</b>	<b>\$ 1,102,254.88</b>	<b>\$ 99,604.79</b>

CITY OF ESSEXVILLE  
Essexville, Michigan

LOCAL STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2013

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
State grants	\$ 59,102.00	\$ 59,102.00	\$ 60,691.50	\$ 1,589.50
Interest	526.00	526.00	149.50	(376.50)
Contribution from special assessments	0.00	0.00	0.00	0.00
State grants - Metro Act	0.00	0.00	0.00	0.00
State grants - Build Mich	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total Revenues	59,628.00	59,628.00	60,841.00	1,213.00
EXPENDITURES:				
Public Works -				
Administration	4,303.00	2,803.00	2,335.47	467.53
Storm drainage	21,512.00	26,512.00	25,951.21	560.79
Nonmotorized	5,502.00	1,502.00	1,178.23	323.77
Routine maintenance	10,435.00	16,935.00	16,507.70	427.30
Traffic signs and signals	3,002.00	3,002.00	2,312.68	689.32
Winter maintenance	20,659.00	17,659.00	16,788.22	870.78
Other functions -fringes	26,863.00	27,863.00	27,523.83	339.17
Total Expenditures	92,276.00	96,276.00	92,597.34	3,678.66
EXCESS REVENUES OVER EXPENDITURES	(32,648.00)	(36,648.00)	(31,756.34)	4,891.66
OTHER FINANCING SOURCES (USES):				
Transfer from major street	25,000.00	25,000.00	25,000.00	0.00
Total Transfers	25,000.00	25,000.00	25,000.00	0.00
Excess (deficiency) of revenues over expenditures and other uses	(7,648.00)	(11,648.00)	(6,756.34)	4,891.66
FUND BALANCE - BEGINNING OF YEAR	105,285.00	98,932.76	98,932.76	0.00
FUND BALANCE - END OF YEAR	\$ 97,637.00	\$ 87,284.76	\$ 92,176.42	\$ 4,891.66

CITY OF ESSEXVILLE  
Essexville, Michigan

MAJOR STREET FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2013

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
State grants	\$ 163,008.00	\$ 163,008.00	\$ 167,496.89	\$ 4,488.89
Contribution from special assessments	0.00	0.00	0.00	0.00
Interest	184.00	184.00	135.92	(48.08)
Federal grant	0.00	0.00	0.00	0.00
State grants - other	0.00	0.00	0.00	0.00
Other	200.00	200.00	277.50	77.50
Total Revenues	163,392.00	163,392.00	167,910.31	4,518.31
EXPENDITURES:				
Public Works -				
Preservation	5,000.00	0.00	0.00	0.00
Administration	12,008.00	5,008.00	4,564.94	443.06
Storm drainage	26,030.00	21,030.00	19,575.23	1,454.77
Routine maintenance	15,561.00	32,561.00	24,652.40	7,908.60
Traffic signs and signals	9,756.00	9,756.00	7,696.15	2,059.85
Trunkline maintenance	0.00	0.00	0.00	0.00
Winter maintenance	45,831.00	45,831.00	28,560.50	17,270.50
Other functions - fringes	28,835.00	28,835.00	27,763.27	1,071.73
Total Expenditures	143,021.00	143,021.00	112,812.49	30,208.51
EXCESS REVENUES OVER EXPENDITURES	20,371.00	20,371.00	55,097.82	34,726.82
OTHER FINANCING SOURCES (USES):				
Transfer to local street	(25,000.00)	(25,000.00)	(25,000.00)	0.00
Total Other Financing Sources	(25,000.00)	(25,000.00)	(25,000.00)	0.00
Excess (deficiency) of revenues over expenditures and other uses	(4,629.00)	(4,629.00)	30,097.82	34,726.82
FUND BALANCE - BEGINNING OF YEAR	36,795.00	55,864.79	55,864.79	0.00
FUND BALANCE - END OF YEAR	\$ 32,166.00	\$ 51,235.79	\$ 85,962.61	\$ 34,726.82

CITY OF ESSEXVILLE  
Essexville, Michigan

BOND DEBT SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 470,187.00	\$ 470,187.00	\$ 470,557.01	\$ 370.01
State grants	0.00	0.00	0.00	0.00
Interest	205.00	205.00	115.22	(89.78)
Local contributions	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Revenues	470,392.00	470,392.00	470,672.23	280.23
EXPENDITURES:				
Debt service				
Principal	405,000.00	405,000.00	405,000.00	0.00
Interest	61,687.00	64,687.00	62,987.50	1,699.50
General government				
Administation	<u>3,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Expenditures	<u>469,687.00</u>	<u>469,687.00</u>	<u>467,987.50</u>	<u>1,699.50</u>
EXCESS REVENUES OVER EXPENDITURES	705.00	705.00	2,684.73	1,979.73
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to general fund	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Transfers	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Excess (deficiency) of revenues over expenditures and other uses	705.00	705.00	2,684.73	1,979.73
FUND BALANCE - BEGINNING OF YEAR	<u>41,072.00</u>	<u>44,410.81</u>	<u>44,410.81</u>	<u>0.00</u>
FUND BALANCE - END OF YEAR	<u>\$ 41,777.00</u>	<u>\$ 45,115.81</u>	<u>\$ 47,095.54</u>	<u>\$ 1,979.73</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

DDA FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL  
Year Ended June 30, 2013

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Property tax	\$ 114,912.00	\$ 114,911.00	\$ 115,105.89	\$ 194.89
Interest	1,000.00	1,000.00	861.59	(138.41)
Federal grant	0.00	0.00	0.00	0.00
State grants - other	0.00	0.00	0.00	0.00
Other	0.00	100.00	0.00	(100.00)
<b>Total Revenues</b>	<b>115,912.00</b>	<b>116,011.00</b>	<b>115,967.48</b>	<b>(43.52)</b>
<b>EXPENDITURES:</b>				
Administration	15,620.00	15,620.00	10,545.71	5,074.29
Economic development	27,881.00	27,881.00	13,001.42	14,879.58
Project activities	55,000.00	50,000.00	45,132.14	4,867.86
Capital outlay	0.00	0.00	0.00	0.00
<b>Total Expenditures</b>	<b>98,501.00</b>	<b>93,501.00</b>	<b>68,679.27</b>	<b>24,821.73</b>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<b>17,411.00</b>	<b>22,510.00</b>	<b>47,288.21</b>	<b>24,778.21</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to equipment fund	0.00	0.00	0.00	0.00
Transfer to local street	0.00	0.00	0.00	0.00
<b>Total Other Financing Sources</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Excess (deficiency) of revenues over expenditures and other uses</b>	<b>17,411.00</b>	<b>22,510.00</b>	<b>47,288.21</b>	<b>24,778.21</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>236,919.00</b>	<b>233,744.32</b>	<b>233,744.32</b>	<b>0.00</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 254,330.00</b>	<b>\$ 256,254.32</b>	<b>\$ 281,032.53</b>	<b>\$ 24,778.21</b>

## OTHER SUPPORTING INFORMATION

CITY OF ESSEXVILLE  
Essexville, Michigan

BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2013

	<u>Special Revenue Funds</u>		
	<u>Inspection Fund</u>	<u>Justice Training Fund</u>	<u>Total</u>
<u>ASSETS:</u>			
Assets:			
Cash and certificate of deposit	\$ 0.00	\$ 11,632.52	\$ 11,632.52
Due from other funds	0.00	0.00	0.00
Other receivables	0.00	0.00	0.00
Taxes receivable	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>0.00</u>	\$ <u>11,632.52</u>	\$ <u>11,632.52</u>
 <u>LIABILITIES:</u>			
Liabilities:			
Due to other funds	0.00	0.00	0.00
Accounts payable	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>
Total Liabilities	0.00	0.00	0.00
 <u>FUND BALANCES:</u>			
Restricted for inspections	0.00	0.00	0.00
Restricted for justice training	0.00	11,632.52	11,632.52
Restricted for capital projects	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>
Total Fund Balances	0.00	11,632.52	11,632.52
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ <u>0.00</u>	\$ <u>11,632.52</u>	\$ <u>11,632.52</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

NONMAJOR GOVERNMENT FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2013

	Special Revenue Funds		Total Nonmajor Government Funds
	Inspection Fund	Justice Training Fund	
REVENUES:			
Property taxes	\$ 0.00	\$ 0.00	\$ 0.00
State grants	0.00	1,185.07	1,185.07
Contributions from other units	0.00	0.00	0.00
Charges for services	0.00	0.00	0.00
Interest	0.00	22.62	22.62
Rental	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00
Total Revenues	0.00	1,207.69	1,207.69
EXPENDITURES:			
General government	0.00	0.00	0.00
Public safety	0.00	2,270.00	2,270.00
Public works	0.00	0.00	0.00
Community and economic development	0.00	0.00	0.00
Recreation and culture	0.00	0.00	0.00
Capital outlay	0.00	0.00	0.00
Debt service:			
Principal	0.00	0.00	0.00
Interest	0.00	0.00	0.00
Total Expenditures	0.00	2,270.00	2,270.00
OTHER FINANCING SOURCES (USES):			
Transfer to general fund	(1,102.16)	0.00	(1,102.16)
Transfer to water fund	0.00	0.00	0.00
Net Other Financing Sources (Uses)	(1,102.16)	0.00	(1,102.16)
NET CHANGE IN FUND BALANCE	(1,102.16)	(1,062.31)	(2,164.47)
FUND BALANCE - BEGINNING OF YEAR	1,102.16	12,694.83	13,796.99
FUND BALANCE - END OF YEAR	\$ 0.00	\$ 11,632.52	\$ 11,632.52

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2013

REVENUES:	
Taxes -	
Property taxes	\$ 821,244.15
Penalties and interest	6,623.42
Administration fees	<u>41,117.55</u>
Total Taxes	868,985.12
State and Local Grants -	
State revenue sharing	254,924.00
EVIP distribution	62,742.00
State metro act	11,086.96
Local grant - Smith park	45,000.00
Liquor license fees	<u>1,450.90</u>
Total State and Local Grants	375,203.86
Contributions from other units -	
School police officer	<u>0.00</u>
Total Other Unit Contributions	0.00
Licenses and permits -	
Misc permits	1,193.00
Cable franchise fee	49,686.19
Cat and dog licenses	<u>42.00</u>
Total Licenses and Permits	50,921.19
Ordinance Fines and penalties	6,319.77
Charges for services -	
Fire runs	0.00
Administrative services	357.42
Police/fire reports	0.00
Inspection permits	15,133.00
Weed cutting	<u>0.00</u>
Total Charges for Services	15,490.42
Interest and Rentals -	
Interest	12,040.61
Rents	<u>0.00</u>
Total Interest and Rentals	12,040.61
Other Revenues -	
Donations	671.00
Sale of assets	0.00
Misc	6,456.63
Total Other Revenues	<u>7,127.63</u>
Total Revenues	<u>1,336,088.60</u>
Other sources and uses -	
Transfer to equipment fund	0.00
Transfer from inspection fund	<u>1,102.16</u>
Total Transfers	1,102.16
EXPENDITURES	<u>1,235,645.97</u>
NET CHANGE IN FUND BALANCE	101,544.79
FUND BALANCE - July 1, 2012	<u>1,000,710.09</u>
FUND BALANCE - June 30, 2013	<u>\$ 1,102,254.88</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES  
Year Ended June 30, 2013

EXPENDITURES:

GENERAL GOVERNMENT:

Mayor and City Council -

Salaries	\$	7,050.00
Fringes and taxes		539.43
Printing and publications		1,732.29
Membership dues		2,454.00
Supplies and other		943.75

Total Legislative 12,719.47

City Manager -

Wages		63,554.78
Fringes and taxes		4,533.06
Telephone		1,610.66
Supplies and other		2,832.99

Total Manager 72,531.49

Elections -

Salaries		4,007.68
Fringes and taxes		1.22
Office supplies		1,861.24
Printing and publications		1,108.08
Supplies and other		1,326.13

Total Elections 8,304.35

Clerk -

Wages		31,008.67
Fringes and taxes		2,293.85
Office supplies		1,139.29
Postage		5,028.94
Supplies and other		4,663.06

Total Clerk 44,133.81

Attorney-

Contracted services		18,092.75
Other costs		0.00

Total Attorney 18,092.75

Assessor -

Salaries		14,865.00
Fringes and taxes		1,137.12
Printing and other costs		5,892.56

Total Assessor 21,894.68

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
 DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2013

EXPENDITURES (CONT.):

GENERAL GOVERNMENT (CONT.):

Treasurer		
Salaries	\$	17,765.52
Fringes and taxes		1,234.75
Office supplies		1,041.63
Telephone		696.23
Supplies and other		3,699.76
		3,699.76
Total Treasurer		24,437.89
Board of Review		
Salaries		750.00
Other costs		64.48
		64.48
Total Board of Review		814.48
Accounting		
Audit		5,382.00
		5,382.00
Total Accounting		5,382.00
Forestry		
Salaries		3,863.55
Fringes and taxes		287.25
Supplies and other		10,381.89
		10,381.89
Total Forestry		14,532.69
City Hall and Grounds -		
Salaries		1,839.47
Supplies		3,485.69
Insurance		3,600.00
Utilities		13,136.92
Repairs and maintenance		7,640.29
Computer support		9,319.91
Other costs		3,156.34
		3,156.34
Total City Hall and Grounds		42,178.62
Total General Government		265,022.23

PUBLIC SAFETY:

Public Safety - Police		
Salaries		333,599.60
Fringes and taxes		27,583.13
Office and postage		1,974.48
Operating supplies		1,595.88
Insurance		12,398.00
Telephone		7,349.36
Repairs and maint		2,191.10
Uniforms		4,373.48
Equipment rental		40,251.00
Other		11,160.60
		11,160.60
Public Safety - Police		442,476.63

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2013

EXPENDITURES (CONT.):  
PUBLIC SAFETY (CONT.)

Public Safety - Fire	
Salaries	\$ 20,936.68
Fringes and taxes	2,274.39
Training	8,574.64
Supplies and other	5,045.79
Equipment rental	4,112.04
	<hr/>
Total Public Safety - Fire	40,943.54
Inspections-	
Building	5,220.44
Plumbing	5,575.24
Electrical	2,294.85
	<hr/>
Total Inspections	13,090.53
Total Public Safety	496,510.70

PUBLIC WORKS:

Department of Public Works -	
Contractual services	1,306.00
Telephone	2,188.22
Supplies	686.41
Uniforms	1,081.04
Insurance	1,232.00
Other	116.86
	<hr/>
Total DPW	6,610.53
Sidewalks	
Salaries	0.00
Supplies	0.00
	<hr/>
Total Sidewalks	0.00
Street Lighting	55,379.07
	<hr/>
Total Public Works	61,989.60

COMMUNITY AND ECONOMIC DEVELOPMENT:

Planning	
Consultants and other costs	17.00
Zoning	
Salaries and supplies	12,409.99
	<hr/>
Total Community and Economic Development	12,426.99

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL FUND  
DETAIL OF EXPENDITURES (Continued)  
Year Ended June 30, 2013

EXPENDITURES (CONT.):

RECREATION AND CULTURAL:

Parks and Recreation-

Wages	\$	2,201.84
Fringes and taxes		159.64
Contractual services		12,089.05
Utilities		946.12
Equipment rental		1,775.07
Supplies and other		<u>2,637.00</u>

Total Parks and Recreation 19,808.72

Community Relations

Civic betterment		0.00
Community schools		<u>0.00</u>

Total Community Relations 0.00

Total Recreation and Cultural 19,808.72

OTHER:

Employee benefits		229,070.82
Debt payments - Principal		10,654.23
Debt payments - Interest		735.46
Employer's share of retirement		74,653.65
Other common costs		<u>0.00</u>

Total Other 315,114.16

CAPITAL OUTLAY:

General government		64,773.57
Parks and recreation		<u>0.00</u>

Total Capital Outlay 64,773.57

Total Expenditures \$ 1,235,645.97

CITY OF ESSEXVILLE  
Essexville, Michigan

DPW BUILDING IMPROVEMENT LOAN - INTERNAL SERVICE FUND  
SCHEDULE OF INDEBTEDNESS  
June 30, 2013

TYPE OF ISSUE: DPW Building Improvements - Payable to Independent bank  
INTEREST RATE: Variable 4.45%  
TOTAL AUTHORIZED ISSUE: 262,468

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/1/2014	42,730.61	1,901.51	44,632.12
	\$ <u>42,730.61</u>	\$ <u>1,901.51</u>	\$ <u>44,632.12</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

GENERAL OBLIGATION UNLIMITED TAX SEWER AND WATER REFUNDING BONDS, SERIES 2011  
 SCHEDULE OF INDEBTEDNESS  
June 30, 2013

TYPE OF ISSUE: General Obligation  
 PURPOSE OF ISSUE: Improvements to storm and sanitary sewers and water supply facilities and streets  
 INTEREST RATE: 2% to 3.25%  
 ORIGINAL ISSUE: Refunding of 2000, 2001 and 2002 Bonds Total \$2,860,000  
 ISSUED: February 28, 2011

Fiscal Year Beginning July 1	Principal Due October 1	Interest Rate	Interest Due October 1	Interest Due Next April 1	Total Principal & Interest Requirements
2013	465,000.00	2.250%	28,818.75	23,587.50	517,406.25
2014	505,000.00	2.500%	23,587.50	17,275.00	545,862.50
2015	545,000.00	3.000%	17,275.00	9,100.00	571,375.00
2016	560,000.00	3.250%	9,100.00	0.00	569,100.00
	<u>\$ 2,075,000.00</u>		<u>\$ 78,781.25</u>	<u>\$ 49,962.50</u>	<u>\$ 2,203,743.75</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

GENERAL INDEBTNESS -  
REVITALIZATION REVOLVING LOAN  
SCHEDULE OF INDEBTEDNESS  
June 30, 2013

INTEREST RATE: 2.25%  
ORIGINAL ISSUE: 100,983

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
7/1/2013	paid	paid	0.00
7/1/2014	10,893.95	495.74	11,389.69
7/1/2015	11,139.11	250.58	11,389.69
	\$ <u>22,033.06</u>	\$ <u>746.32</u>	\$ <u>22,779.38</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

SEWER FUND SRF LOAN  
 SCHEDULE OF INDEBTEDNESS  
June 30, 2013

TYPE OF ISSUE: SRF loan paid through Bay County  
 PURPOSE OF ISSUE: Sewer system improvements  
 INTEREST RATE: 2.25%  
 ORIGINAL ISSUE: 1,990,000

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/2013	110,000.00	6,581.25	116,581.25
4/1/2014	0.00	5,343.75	5,343.75
10/1/2014	115,000.00	5,343.75	120,343.75
4/1/2015	0.00	4,050.00	4,050.00
10/1/2015	120,000.00	4,050.00	124,050.00
4/1/2016	0.00	2,700.00	2,700.00
10/1/2016	120,000.00	2,700.00	122,700.00
4/1/2017	0.00	1,350.00	1,350.00
10/1/2017	120,000.00	1,350.00	121,350.00
	\$ <u>585,000.00</u>	\$ <u>33,468.75</u>	\$ <u>618,468.75</u>

CITY OF ESSEXVILLE  
Essexville, Michigan

SEWAGE DISPOSAL SYSTEM REVENUE BONDS, SERIES 2010  
SCHEDULE OF INDEBTEDNESS  
June 30, 2013

TYPE OF ISSUE: Revenue Bond  
PURPOSE OF ISSUE: Improvements to storm and sanitary sewers  
INTEREST RATE: 3.25%  
ORIGINAL ISSUE: 7,485,000  
SALE DATE: April 7, 2010  
OUTSTANDING BORROWINGS  
AS OF JUNE 30, 2012:

Year	Principal Due April 1	Interest Rate	Interest Due April 1	Interest Due October 1	Total Principal & Interest Requirements
2011	\$ 0.00	3.250%	\$ 0.00	\$ 0.00	\$ 0.00
2012	0.00	3.250%	0.00	0.00	0.00
2013	0.00	3.250%	0.00	121,387.50	121,387.50
2014	5,000.00	3.250%	121,387.50	121,306.25	247,693.75
2015	5,000.00	3.250%	121,306.25	121,225.00	247,531.25
2016	5,000.00	3.250%	121,225.00	121,143.75	247,368.75
2017	5,000.00	3.250%	121,143.75	121,062.50	247,206.25
2018	65,000.00	3.250%	121,062.50	120,006.25	306,068.75
2019	70,000.00	3.250%	120,006.25	118,868.75	308,875.00
2020	80,000.00	3.250%	118,868.75	117,568.75	316,437.50
2021	90,000.00	3.250%	117,568.75	116,106.25	323,675.00
2022	100,000.00	3.250%	116,106.25	114,481.25	330,587.50
2023	105,000.00	3.250%	114,481.25	112,775.00	332,256.25
2024	110,000.00	3.250%	112,775.00	110,987.50	333,762.50
2025	125,000.00	3.250%	110,987.50	108,956.25	344,943.75
2026	145,000.00	3.250%	108,956.25	106,600.00	360,556.25
2027	155,000.00	3.250%	106,600.00	104,081.25	365,681.25
2028	165,000.00	3.250%	104,081.25	101,400.00	370,481.25
2029	175,000.00	3.250%	101,400.00	98,556.25	374,956.25
2030	195,000.00	3.250%	98,556.25	95,387.50	388,943.75
2031	200,000.00	3.250%	95,387.50	92,137.50	387,525.00
2032	210,000.00	3.250%	92,137.50	88,725.00	390,862.50
2033	215,000.00	3.250%	88,725.00	85,231.25	388,956.25
2034	225,000.00	3.250%	85,231.25	81,575.00	391,806.25
2035	230,000.00	3.250%	81,575.00	77,837.50	389,412.50
2036	250,000.00	3.250%	77,837.50	73,775.00	401,612.50
2037	275,000.00	3.250%	73,775.00	69,306.25	418,081.25
2038	290,000.00	3.250%	69,306.25	64,593.75	423,900.00
2039	305,000.00	3.250%	64,593.75	59,637.50	429,231.25
2040	310,000.00	3.250%	59,637.50	54,600.00	424,237.50
2041	300,000.00	3.250%	54,600.00	49,725.00	404,325.00
2042	300,000.00	3.250%	49,725.00	44,850.00	394,575.00
2043	310,000.00	3.250%	44,850.00	39,812.50	394,662.50
2044	325,000.00	3.250%	39,812.50	34,531.25	399,343.75
2045	350,000.00	3.250%	34,531.25	28,843.75	413,375.00
2046	400,000.00	3.250%	28,843.75	22,343.75	451,187.50
2047	425,000.00	3.250%	22,343.75	15,437.50	462,781.25
2048	450,000.00	3.250%	15,437.50	8,125.00	473,562.50
2049	500,000.00	3.250%	8,125.00	0.00	508,125.00
	<u>\$ 7,470,000.00</u>		<u>\$ 3,022,987.50</u>	<u>\$ 3,022,987.50</u>	<u>\$ 13,515,975.00</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2013

**FINDING 2013-01:** Noncompliance with deposit requirements for Bond Reserve and Repair and Replacement Accounts of the 2010 Sewage Disposal Bonds.

**Condition:** As detailed in Note 1 Section i - restricted cash of the financial statements, the City is required to make annual deposits into separately maintained bank accounts as required as a condition of the 2010 Sewage Disposal Bond agreement.

**Criteria:** The City did not make the required deposit into the reserve and repair accounts as of June 30, 2013. However, prior to the end of our fieldwork the omission was discovered by the treasurer and the required deposit into the reserve and repair accounts were made.

**Cause:** Due to other fiscal year end closing activities and other responsibilities there was an oversight in not making the required June 30 transfer of funds into the appropriate reserve and repair accounts.

**Effect:** Noncompliance with provisions of the loan agreement with U.S. Department of Agriculture Rural Development could cause loan to be in default.

**Recommendation:** City should establish a checklist of compliance items to be monitored on a periodic basis.

**City's Response:** The reserve and replacement accounts are now properly funded and reminder checklist have been established to adequately fund the accounts prior to June 30 in subsequent years.

# *Quast, Janke and Company, P.C.*

*Certified Public Accountants*

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November 15, 2013

The City Council  
The City of Essexville

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Essexville for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2010. Professional standards also require that we communicate to you the following information related to our audit.

## **SIGNIFICANT AUDIT FINDINGS:**

### ***Qualitative Aspects of Accounting Practices***

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Essexville's financial statements were the Other Postemployment Benefit Obligation (OPEB) and depreciation and useful lives calculated for sewer system improvements.

### ***Difficulties Encountered in Performing the Audit***

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

### ***Corrected and Uncorrected Statements***

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

***Disagreements with Management***

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 15, 2013.

***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 governmental unit'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.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. We discussed with management finding 2013-01 as reported in the audit. As noted in the above reference representation letter we discussed management's responsibility for the financial statements and the assistance we provided in drafting those statements. We met with the Treasurer prior to the issuance of the financial reports to determine her understanding of those statements and answer any questions regarding our preparation of the financial statements. We discussed with management a new accounting pronouncement that will impact the City beginning in 2015.

**Other Matters**

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

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

Very truly yours,



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Quast, Janke and Company, P.C.  
Certified Public Accountants

CITY OF ESSEXVILLE  
BAY COUNTY  
STATE OF MICHIGAN

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2013

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***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
The City of Essexville  
Essexville, Michigan 48732

We have audited the accompanying financial statements of the governmental activities, the business – type activities each major fund, and the aggregate remaining fund information of City of Essexville as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Essexville'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, each major fund, and the aggregate remaining fund information of the City of Essexville, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Essexville's basic financial statements. The combining and individual nonmajor fund financial statements, general fund detail, and indebtedness schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, general fund detail of expenditures, and indebtedness schedules are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements, general fund detail of expenditures and indebtedness schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 11 to the financial statements, the City of Essexville implemented Governmental Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the City of Essexville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Essexville's internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
Bay City, Michigan 48708  
November 15, 2013

**Quast, Janke and Company, P.C.**  
*Certified Public Accountants*

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

To the City Council  
The City of Essexville  
1107 Woodside  
Essexville, Michigan 48732

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Essexville, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Essexville's basic financial statements, and have issued our report thereon dated November 15, 2013.

**Internal Control over Financial Reporting**

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

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

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

The City Council  
The City of Essexville

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Essexville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and loan agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-01 relating to reserve requirements for USDA loan.

### **Purpose of this Report**

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

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C.  
Bay City, Michigan 48708  
November 15, 2013

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

This section of the City of Essexville's annual Financial Report presents the Management Discussion and Analysis (MD&A) of the City's financial activities during the fiscal year ended June 30, 2013. It is intended to be read as part of the City's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of Essexville exceeded liabilities at June 30, 2013, by \$3,116,230. Of this amount \$1,767,443 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$410,809 during the year. Of this amount the position of our governmental activities increased \$553,337 and the position of our business-type activities decreased by \$142,528.

**USING THIS REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

- **Management's Discussion and Analysis** introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- **Government-Wide Financial Statements** consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.
- **Fund Financial Statements** tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statements by providing information about the major funds.
- **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- **Required Supplementary Information**, other than MD&A, provides information about the required budgetary comparison information.
- **Other Additional Information** provides detailed information about the General Fund and Debt.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**REPORTING THE CITY AS A WHOLE**

The Statement of Net Position, the Statement of Activities, and the Government-Wide Statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net position, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision. The following paragraphs are intended to assist in making this overall assessment.

**REPORTING THE CITY'S MAJOR ACTIVITIES**

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business-Type Activities** - This activity includes the water and sanitary sewer systems and the rubbish fund. These activities are financed primarily by user charges.

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

The fund financial statements provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has three kinds of funds: governmental, proprietary and fiduciary.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**Governmental Funds**

The Governmental Funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street, Local Street, and Downtown Development Authority and 2010 Debt Service Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The financial statements required for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

**Proprietary Funds**

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund and the Business-Type Activities included in the Government-Wide Statement is the detail and additional information, such as cash flows, provided in the Proprietary Fund statements. The Proprietary Funds which include the Water, Sewer, and Rubbish Funds, are considered to be major funds of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The financial statements required for Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position and a Statement of Cash Flows.

**Fiduciary Funds**

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net position, and is reported using accounting principles similar to Proprietary Funds. The City's Fiduciary Funds are presented in the Fiduciary Fund financial statements by type, Fringe Benefit Fund and Tax Collection Fund. Because by definition these assets are being held for the benefit of a third party, pension participants and other local governments, and cannot be used to address activities or obligations of the government, these funds are not incorporated into the Government-Wide Statements.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>						
Current and other assets	\$ 1,818,177	\$ 1,718,969	\$ 898,004	\$ 854,550	\$ 2,716,181	\$ 2,573,519
Capital assets net of accumulated depreciation	<u>2,488,464</u>	<u>2,511,963</u>	<u>8,572,654</u>	<u>8,567,751</u>	<u>11,061,118</u>	<u>11,079,714</u>
Total Assets	4,306,641	4,230,932	9,470,658	9,422,301	13,777,299	13,653,233
<b>LIABILITIES</b>						
Current liabilities	43,396	516,533	251,353	342,467	294,749	859,000
Long-term liabilities	<u>2,426,320</u>	<u>2,430,811</u>	<u>7,940,000</u>	<u>7,658,000</u>	<u>10,366,320</u>	<u>10,088,811</u>
Total Liabilities	2,469,716	2,947,344	8,191,353	8,000,467	10,661,069	10,947,811
<b>NET POSITION</b>						
Invested in capital assets of net related debt	334,291	(95,196)	777,629	1,054,724	1,111,920	959,528
Restricted	236,867	213,005	0	0	236,867	213,005
Unrestricted	<u>1,265,767</u>	<u>1,165,779</u>	<u>501,676</u>	<u>367,109</u>	<u>1,767,443</u>	<u>1,532,888</u>
Total Net Position	<u>\$ 1,836,925</u>	<u>\$ 1,283,588</u>	<u>\$ 1,279,305</u>	<u>\$ 1,421,833</u>	<u>\$ 3,116,230</u>	<u>\$ 2,705,421</u>

The largest portion of the City's net position is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$1,767,443.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

The following analysis provides the changes in the net position for the City's governmental and business-type activities:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
REVENUES:						
Charges for services	\$ 73,009	\$ 72,272	\$ 1,617,270	\$1,639,343	\$ 1,690,279	\$1,711,615
Operating grants	242,582	239,283	55,765	61,296	298,347	300,579
Capital grants	45,000	0	0	0	45,000	0
GENERAL REVENUES:						
Property taxes	1,454,648	1,336,674	32,923	33,133	1,487,571	1,369,807
State shared revenue	317,666	308,314	0	0	317,666	308,314
Unrestricted investment earnings	13,326	8,841	1,309	1,446	14,635	10,287
Miscellaneous	<u>6,457</u>	<u>(5,849)</u>	<u>0</u>	<u>(488,475)</u>	<u>6,457</u>	<u>(494,324)</u>
Total Revenues	2,152,688	1,959,535	1,707,267	1,246,743	3,859,955	3,206,278
PROGRAM EXPENSES:						
General government	279,818	297,628	0	0	279,818	297,628
Public safety	513,656	517,358	0	0	513,656	517,358
Public works	61,990	60,394	0	0	61,990	60,394
Streets	231,277	228,722	0	0	231,277	228,722
Comm. & Econ. Development	70,561	46,907	0	0	70,561	46,907
Unallocated fringes	299,200	150,857	0	0	299,200	150,857
Recreational/cultural	21,934	22,004	0	0	21,934	22,004
Interest	67,176	62,869	238,321	235,876	305,497	298,745
Sewer	0	0	847,781	652,683	847,781	652,683
Water	0	0	451,469	469,544	451,469	469,544
Refuse	0	0	312,224	302,014	312,224	302,014
Depreciation	<u>53,739</u>	<u>51,181</u>	<u>0</u>	<u>0</u>	<u>53,739</u>	<u>51,181</u>
Total Expenses	<u>1,599,351</u>	<u>1,437,920</u>	<u>1,849,795</u>	<u>1,660,117</u>	<u>3,449,146</u>	<u>3,098,037</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 553,337</u>	<u>\$ 521,615</u>	<u>\$ (142,528)</u>	<u>\$ (413,374)</u>	<u>\$ 410,809</u>	<u>\$ 108,241</u>

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Essexville completed its year, its governmental funds reported a total fund balance of \$1,620,155 which is more than the \$1,447,460 total fund balance at June 30, 2012.

- The General Fund, the operating fund for the City, ended fiscal year 2013 with a \$1,102,255 balance compared to the prior year ending fund balance of \$1,007,710.
- The Major Street Fund Balance increased by \$30,098.
- The Local Street Fund Balance decreased by \$6,756.
- The Debt Service Fund Balance increased by \$2,685.
- The DDA Fund increased by \$47,288.

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

As the City of Essexville completed its year, its Business-Type Funds reported total net position of \$1,279,305, which is less than the \$1,421,833 total fund balances at June 30, 2012.

- Sewer Fund net position decreased by \$163,076.
- Water Fund net position increased by \$30,739.
- Rubbish and Trash Fund net position decreased by \$10,191.

**BUDGETARY HIGHLIGHTS**

During the year ended June 30, 2013, the City amended the budget three (3) times. The amendments were done for line item changes and to cover some unexpected costs.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$2,488,464 (net of accumulated depreciation) at June 30, 2013. Capital assets for business-type activities totaled \$8,572,654 (net of accumulated depreciation) at June 30, 2013. The notes to the financial statements contain more detail information about the City's capital assets.

Governmental activities major capital outlays included a roof to City Hall. For Business-Type Activities, there were additions in the Sewer Fund for remaining retrofit of the wastewater treatment facility.

**ECONOMIC FACTORS**

Elected and appointed officials must consider many factors in the preparation and the adoption of the City's annual budget. One important factor affecting the City's budget is the State of Michigan's fiscal health, because a significant source of revenue for the City's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the City has seen a reduction in state shared revenue. The consequences of this revenue reduction is and will be in the future a reduction in services funded by the General Fund with public safety services at risk in the near future without additional state or local revenue to the General Fund.

**LONG-TERM DEBT**

At year end the City had \$10,194,764 in outstanding bonds and loans. All debt in the business-type and governmental-activities is detailed below:

CITY OF ESSEXVILLE  
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

**Infrastructure Bonds** - In 1999 local voters authorized the City Council to sell up to \$5,000,000 of general obligation bonds restricted for improvements to the City's water, sewer and storm water infrastructure. These bonds were sold in three series: \$2,000,000 (January 11, 2000), \$1,500,000 (February 27, 2001) and \$1,500,000 (February 28, 2002). On February 28, 2011, the City refinanced the three series of infrastructure bonds to combine them into one bond.

<b><u>Combined Series - 2000, 2001, 2002 (Original Bond Amount)</u></b>	
Balance June 30, 2013	\$2,075,000

**Brownfield Revitalization Loan** - In the year 2000, the City received \$ 100,983 from the State of Michigan Department of Environmental Quality to develop land that was a landfill. The city is obligated to repay the loan, which began July 1, 2005. The amount due as of June 30, 2013 is \$ \$22,033.

**Independent Bank** – The City financed the improvements to the new DPW building by obtaining financing from Independent Bank thru Act 99 in the amount of \$ 262,468. The amount due as of June 30, 2013 is \$42,731. The debt is recorded in the City's Motor Vehicle and Equipment internal service fund.

**Sewage Disposal Bonds Series 2010** - At the fiscal year ended June 30, 2010, the City borrowed funds through U.S. Department of Agriculture Rural Development to construct a new raw wastewater pump station, demolition of abandoned treatment plant, to construct a force main to connect the City's sewage disposal system to the Bay County Treatment Facility and other improvements. Total amounts of bonds authorized for the project totaled \$7,485,000. As of June 30, 2013, the total outstanding on bonds was \$7,470,000.

**Sewer Fund** - State Revolving Fund ("SFR") loan administered by the Michigan Department of Environmental Quality to construct mandated improvements at the City's wastewater treatment plant.

<b><u>SRF Loan 1997</u></b>	
Balance June 30, 2013	\$ 585,000

Additional indebtedness schedules are included in the Additional Information, which provides a detail payment schedule for each debt.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the City's finances and operating activities. If you have any questions or require additional information, please contact the City of Essexville, 1104 Woodside Avenue, Essexville, MI 48732-1627.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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

A: DESCRIPTION OF REPORTING ENTITY:

The City of Essexville is located in Bay County and operates under an elected City Council (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B: REPORTING ENTITY:

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

A *blended component unit* is a legally separate entity from the Local Governmental Unit, but is so intertwined with the unit that it is, in substance, the same as the Local Governmental Unit. It is reported as part of the Local Governmental Unit and blended into the appropriate fund types and account groups.

Based on the aforementioned criteria the City of Essexville has blended its Downtown Development Authority into the financial statements. The Downtown Development Authority is appointed to preside over this specific district, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization, and historic preservation within this area.

Members of the board are approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

C: BASIS OF PRESENTATION:

**Government-Wide Statements**

The *government-wide financial statements* (the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the City. The effect of the interfund activity, within the Governmental and Business-Type Activities columns, has been removed from these statements. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for Governmental Funds, Proprietary Funds, and Fiduciary Funds. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**Major Government Funds**

***General Fund –***

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

***Major Street Fund –***

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

***Local Street Fund –***

Local Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of local roads within the City.

***Downtown Development Authority Fund –***

The Downtown Development Authority Fund is used to account for revenues and expenditures related to the economic development, neighborhood revitalization, historic preservation, and capital improvements within its district, funded by various grants and mileage increases.

***Debt Service Fund –***

This fund is used to accumulate tax revenues for purposes of making interest and principal payments on General Obligation bonds.

**Major Proprietary Funds**

Enterprise Funds:

Enterprise Funds are used to account for operations:

- a. that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- b. where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

***Water Fund –***

Water Fund is used to account for the provision of water to the residents of the City. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers

***Sewer Fund –***

Sewer Fund is used to account for the revenue and expenses for the operation of a sewer system for the residents of the City. Activities of the fund include administration, operation and maintenance of the sewer lines and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

***Rubbish and Trash Fund –***

Rubbish and Trash Fund accounts for the activities of garbage collection and financed primarily by a user charge for the provision of those services.

**Fiduciary Funds**

Fiduciary, or Trust and Agency, Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust, Nonexpendable Trust, Pension Trust, and Agency Funds. Nonexpendable Trust and Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

***Fringe Benefit Fund –***

The Fringe Benefit Fund accounts for assets held by the City for funding of employee sick time and vacation benefits. The amounts do not involve the measurement of results of operations.

***Tax Collection Fund –***

Tax Collection Fund is an agency fund to account for collection of property taxes of other local units.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the Government-Wide and Proprietary Fund Financial Statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

As a general rule, the effect of inter-fund activity has been eliminated from the Government-Wide Financial Statements. Exceptions to this general rule are charges between the City's water, sewer and refuse functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (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. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses for the Proprietary Funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D: Measurement Focus/Basis of Accounting:**

*Measurement focus* refers to what is being measured; *basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. *Basis of accounting* relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-Wide Statements and Fund Financial Statements for Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

**E: CAPITAL ASSETS:**

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000. 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. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25-40 years
Infrastructure	20-40 years
Land improvements	10-20 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

**F: FUND EQUITY:**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**G: PROPERTY TAXES:**

The City's property taxes are levied and become a lien each July 1<sup>st</sup>, based on the taxable valuation of property located in the City as of the preceding December 31<sup>st</sup>. These taxes are due on August 31<sup>st</sup> or with the final collection date of March 2<sup>nd</sup> before they are added to the County's delinquent tax rolls. The City's property tax revenues are recognized as revenues in the fiscal year levied to the extent they are measurable and available.

The taxable valuation of City properties totaled \$76,241,213 Ad Valorem taxes levied on this valuation consisted of 11.25 mills for City operations; .4500 mills for trash collection; 1.0000 mills for the Downtown Development Authority; and 6.4300 mills for the general obligation bond issues.

**H: COMPENSATED ABSENCES:**

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay at January 1 of each year. An employee is eligible for his or her first vacation when twelve months have elapsed dating from his or her first day of employment. Subsequent vacations may be taken any time after January 1 of each year. The allowed vacation time for each employee is based upon years of service. Up to two weeks of vacation may be carried over through June of the following year subject to approval by the City Manager. On January 1 of each year, each employee is credited with eighty hours of paid sick leave. The first pay period in December of each year, each employee shall be paid for one-half of all unused sick leave that the employee was credited with on January 1 of that calendar year, or as prorated for new hires during the year. If an employee does not use any of the eighty hours of paid sick leave which was credited to the employee on January 1 of that calendar year, the employee shall be paid a total of forty-eight hours for the employee's unused sick leave. Sick leave may not be accumulated or carried over from year to year.

The Fringe Benefit Fund was established to provide cash severance payments to any employee, upon termination of his/her employment, of any unused portion of vacation that he or she was entitled on January 1 of that year. Vacation pay is not allowed to be carried over and is earned on January 1 of each year and any liability related to it at June 30, 2013 is included in the Fringe Benefit Fund.

**I: RESTRICTED CASH:**

The City's 2013 sewage disposal bonds require that the City maintain a bond reserve account and a repair and replacement account. The bond reserve account is designated for bond principal and interest payments requires \$38,400 deposited into the account each

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

**I: RESTRICTED CASH (Continued):**

June 30th until there is accumulated a sum of \$384,000. Total funds in the bond reserve account at June 30, 2013 are \$85,637. These funds are restricted to be used for future debt payments.

The repair and replacement account required an initial deposit of \$100,000 into the fund. Each June 30th, the amount of \$33,333 is to be deposited into the repair and replacement account until the sum of \$384,000 has been deposited in the bond reserve account after which the amount of \$71,733 shall be deposited annually in the repair and replacement account until the bonds are paid in full. Monies in the repair and replacement account are restricted to be used only to pay for emergency maintenance of the system, extensions to systems facilities and replacement of system assets having useful lives ending prior to the final maturity of the bonds. Total funds in the repair and replacement account at June 30, 2013 totaled \$174,337. The City failed to fully fund the bond reserve and repair accounts for the year ended June 30, 2013 as required by the bond agreement.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**A: BUDGETARY INFORMATION:**

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

- The City Manager submits to the City Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to June 1, the budget is legally enacted by adoption of the City Council.
- The City Manager is authorized to transfer certain budgeted amounts between departments within any fund. Any revisions that alter the total expenditure of any fund must be approved by the City Council. The legal level of the control is at the activity level.
- Formal budgetary integration is employed as a management control device during the year for all funds.
- Budgets for the General and Special Revenue Funds are prepared on a modified accrual basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

- All annual appropriations lapse at fiscal year-end.

**B: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS:**

During the year, the City did not incur any expenditures that were in excess of the amounts budgeted.

Fund Deficits – The City had no accumulated fund balance deficits.

**NOTE 3. LONG-TERM DEBT:**

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Annual Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Deductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<b>GOVERNMENTAL ACTIVITIES</b>						
Refunding of 2000, 2001, and 2002 G.O. Bonds	2 – 3.25	405,000-560,000	\$ 2,480,000	\$ (405,000)	\$ 2,075,000	\$ 465,000
Loan – Independent Bank	4.45	34,189-45,656	\$ 83,516	\$ (40,785)	\$ 42,731	\$ 42,731
Revitalization Loan	2.25	9,948-11,139	<u>\$ 32,687</u>	<u>\$ (10,654)</u>	<u>\$ 22,033</u>	<u>\$ 10,894</u>
Total Governmental Activities			<u>\$ 2,596,203</u>	<u>\$ (456,439)</u>	<u>\$ 2,139,764</u>	<u>\$ 518,625</u>
<b>BUSINESS-TYPE ACTIVITIES</b>						
<u>Sewer Fund</u>						
SRF Loan payable	2.25	90,000-120,000	\$ 695,000	\$ (110,000)	\$ 585,000	\$ 110,000
2010 Sewage Disposal Bonds	3.25	5,000-500,000	<u>\$ 7,078,000</u>	<u>\$ 392,000</u>	<u>\$ 7,470,000</u>	<u>\$ 5,000</u>
Total Business-Type Activities			<u>\$ 7,773,000</u>	<u>\$ 282,000</u>	<u>\$ 8,055,000</u>	<u>\$ 115,000</u>

Annual debt service requirements are detailed in the indebtedness schedules.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 4. CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance July 1</u>	<u>Additions/ Retirements/ Completions</u>	<u>Adjustments</u>	<u>Balance June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 802,150	\$ 0	\$ 0	\$ 802,150
Capital assets being depreciated				
Buildings and improvements	1,086,766	40,616	0	1,127,382
Construction in progress				
Infrastructure	755,582	14,243		769,825
Vehicles, furniture and equipment	1,160,640	54,453	0	1,215,093
Other	<u>60,000</u>	<u>0</u>	<u>0</u>	<u>60,000</u>
Subtotal	3,865,138	109,312	0	3,974,450
Less accumulated depreciation	<u>1,353,174</u>	<u>132,812</u>	<u>0</u>	<u>1,485,986</u>
Net capital assets	<u>\$ 2,511,964</u>	<u>\$ (23,500)</u>	<u>\$ 0</u>	<u>\$ 2,488,464</u>
Business –type activities:				
Capital assets not being depreciated				
Construction in progress	\$ 7,102,983	\$ (7,102,983)	\$ 0	\$ 0
Capital assets being depreciated				
Buildings and improvements	715,834	(715,834)	0	0
Water and sewer distribution systems	758,586	262,580	7,818,817	8,839,983
Furniture and equipment	<u>357,133</u>	<u>0</u>	<u>0</u>	<u>357,133</u>
Subtotal	8,934,536	(7,556,237)	7,818,817	9,197,116
Less accumulated depreciation	<u>366,786</u>	<u>257,675</u>	<u>0</u>	<u>624,461</u>
Net capital assets	<u>\$ 8,567,750</u>	<u>\$ (7,813,912)</u>	<u>\$ 7,818,817</u>	<u>\$ 8,572,655</u>

**NOTE 5. INTERFUND BALANCES AND TRANSFERS:**

The composition of interfund receivable and payable balances at June 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer	\$ 3,264

Purpose - Temporary reclassification of expenditures.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 5. INTERFUND BALANCES AND TRANSFERS (continued):**

The composition of inter-fund transfers during the fiscal year ended June 30, 2013 is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Local Street	Major Street	\$ 25,000

Purpose - 50% allowable state transfer to increase local street fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Inspection	\$1,102

Purpose – To eliminate fund.

**NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:**

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. 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; banker's acceptance 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 subdivision 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 six financial agencies for the deposit of local unit funds. The investment policy adopted by the City in accordance with *Public Act 196 of 1997* has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

The breakdown between deposits and investments for the City is as follows:

Statement of Net Assets:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and cash equivalents	\$ 1,318,070	\$ 469,840	\$ 63,811	\$ 1,851,721
Investments	<u>350,000</u>	<u>0</u>	<u>0</u>	<u>350,000</u>
Total	<u>\$ 1,668,070</u>	<u>\$ 469,840</u>	<u>\$ 63,811</u>	<u>\$ 2,201,721</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued):**

Deposits and investments:

Bank deposits (checking, savings, and certificates of deposit)	\$ 1,851,471
Cash on hand	250
Investments (securities and stocks)	<u>350,000</u>
Total	<u>\$ 2,201,721</u>

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 the government. At June 30, 2013, the carrying value of deposits owned by the City was \$2,250,276. Approximately \$1,206,533 of the City's bank balance was covered by federal depository insurance. The remaining balance \$1,043,743 was exposed to custodial credit risk because it was uninsured and uncollateralized. 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 depositors.

Custodial Credit Risk of Investments

Custodial credit risk is that risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investments securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of deliver-versus-payment. At year-end, the following is a summary of the City's investments at June 30, 2013:

<u>Type of Investment</u>	<u>Carrying Value</u>
Government-wide:	
U.S Government and Agency Securities	\$ 350,000
Fifth Third Instl Govt Money Market Fund	
Component Unit:	
U.S Government and Agency Securities	<u>0</u>
Total	<u>\$ 350,000</u>

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued):**

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. Short-term funds matched to a specific cash flow requirement shall be invested in securities maturing not more than two (2) years from the date of purchase. Long-term funds (capital projects, debt service, etc.) matched to a specific cash flow requirement may be invested in securities maturing not more than five (5) years from the purchase date.

As of June 30, 2013, average maturities and ratings of the City's investments were as follows:

<u>Type of Investment</u>	<u>Value</u>	<u>Weighted Average Maturity</u>	<u>Moody's Investors Services Rating</u>
Government-wide:			
US Government and Agency Securities:			
Federal Home Loan Banks	200,000	3.54 Years	AAA
Fannie Mae	150,000	1.46 Years	N/A

Credit Risk

State law limits investments to specific governmental securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific identified in the list of authorized investments in the summary of significant accounting policies. Credit risk ratings, when applicable; have been identified above for the City's investments.

Concentration of Credit Risk

The City diversifies its investment portfolio by specific dates, security types and institution so that potential losses of individual securities do not exceed income that would be generated by the remainder of the portfolio.

**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) and certain medical benefits provided to employees.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 7. RISK MANAGEMENT (continued):**

The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool program for workers' compensation, liability and property risk. This insurance provider is a public entity risk pool providing coverage to its members. The City pays an annual premium to this provider, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 8. DEFINED BENEFIT PENSION PLAN:**

**Plan Description**

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan, 48917. MERS was organized pursuant to Public Act 156 of 1851, §12a (MSA5.333(a);MCLA46.12a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1995, the sections of which have been approved by the State Pension Commission.

The City is in an agent/multi-employer defined contribution plan with the Municipal Employees Retirement System (MERS administered by the State of Michigan). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2012. The City's covered payroll for employees covered by MERS for the year ended December 31, 2012 was \$676,183 per the actuarial report. Data on covered versus total payroll was available in the latest actuarial evaluation.

As of December 31, 2012, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	24
Active plan participants:	
Vested members	15
Vested former members	<u>4</u>
Total Active	<u>19</u>
Total Participants	43

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):**

**Funding Policy**

The City is required to contribute at an actuarially determined rate. The rate varies by divisions of employees from 10.10% to 27.84% of annual covered payroll. Employee contributions vary by covered divisions, 3% for general employees, 4.7% for police and fire, and 3% for administrative staff of annual covered payroll.

The obligation to contribute to and maintain the system was established by negotiation with collective bargaining units and city policy for non-union employees.

The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

**Annual Pension Cost**

For the year ended June 30, 2013, the City's annual pension cost of \$127,339 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent non-compounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a ten-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):**

**UNFUNDED ACTUARIAL ACCRUED LIABILITY**

	12/31/2012	12/31/2011
Actuarial Accrued Liability		
Retirees and beneficiaries currently receiving benefits	\$ 4,841,109	\$ 5,004,807
Terminated employees (vested former members not yet receiving benefits)	176,086	162,691
Non-vested terminated employees (pending refunds of accumulated member contributions)	13,441	0
Current employees -	<u>1,473,814</u>	<u>1,392,798</u>
Total Actuarial Accrued Liability	\$ 6,504,450	\$ 6,560,295
Net Assets Available for Benefits at Actuarial Value	<u>4,879,849</u>	<u>5,051,973</u>
(Market Value is \$4,267,232 and \$4,189,675)		
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 1,624,601</u>	<u>\$ 1,508,322</u>

**TREND INFORMATION**

	Year End December 31									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual pension cost (APC)	\$ 46,181	\$ 51,426	\$ 74,309	\$ 87,255	\$ 102,376	\$ 230,900	\$ 108,504	\$ 107,375	\$ 127,339	\$ 127,366
Percentage of APC contributed	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):**

REQUIRED SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Liabilities (AAL) – Entry Age A	Actuarial Accrued Assets B	Unfunded AAL (UAAL) A - B	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/1996	\$2,748,542	\$3,225,812	(477,270)	117%	\$669,328	0%
12/31/1997	3,160,004	3,488,206	(328,202)	110%	704,848	0%
12/31/1998	3,603,692	3,851,639	(247,947)	107%	718,560	0%
12/31/1999	3,912,682	4,310,458	(397,776)	110%	711,515	0%
12/31/2000	4,494,948	4,569,071	(74,123)	102%	735,883	0%
12/31/2001	4,781,430	4,671,965	109,465	98%	729,767	15%
12/31/2002	5,061,625	4,558,265	503,360	90%	762,667	66%
12/31/2003	5,274,509	4,618,497	656,012	88%	800,015	82%
12/31/2004	5,432,911	4,638,435	794,476	85%	827,579	96%
12/31/2005	5,553,653	4,686,841	866,812	84%	833,473	104%
12/31/2006	5,743,465	4,811,131	932,334	84%	871,340	107%
12/31/2007	5,862,434	4,995,228	867,206	85%	903,340	96%
12/31/2008	5,903,620	5,142,151	761,469	87%	836,779	91%
12/31/2009	5,985,390	5,106,408	878,982	85%	906,078	97%
12/31/2010	6,139,049	5,118,960	1,020,089	83%	833,327	122%
12/31/2011	6,560,295	5,051,973	1,508,322	77%	677,837	223%
12/31/2012	6,504,450	4,879,849	1,624,601	75%	676,183	240%

ANNUAL REQUIRED CONTRIBUTIONS

Fiscal Year Beginning	<u>July 1, 2013</u>	<u>July 1, 2014</u>
Annual Required Contribution (ARC)	\$ 172,380	\$ 191,568
Amortization Factor Used – Underfunded Liabilities (27 years)	.06112	.06112

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB):**

**Plan Description**

The City of Essexville administers a single employer defined benefit healthcare plan established by the City Council. In addition to the retirement benefits described in Note 8, the City provides health insurance benefits to certain retirees, which are advance funded on a discretionary basis.

**Funding Policy**

The contribution requirements of Plan members and the City are established and may be amended by the City Council. The City funds retiree health care benefits using the pay-as-you-go (or cash disbursement) method. The City's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits for retired employees. For the year ended June 30, 2013, the City did not contribute to the Plan this year. Retirees receiving benefits made no contributions to the Plan, as none were required.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Entry Age Normal, actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experienced in accordance with the assumptions use, the ARC will increase at approximately the same rate as active member payroll. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The long term rate of investment return used in the valuation was 4%.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued):**

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution and net OPEB cost		\$ 286,555	
Contributions made		<u>127,120</u>	
Decrease in net OPEB obligation		4,524	
Net OPEB obligation, beginning of year		<u>291,079</u>	
Net OPEB obligation, end of year		\$ 286,555	

**Funded Status and Funding Process**

As of June 30, 2013, the actuarial accrued liability for benefits was \$ 286,555 all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

Schedule of Employer Contributions

Fiscal Year <u>Ending</u>	Estimated Premiums for Retirees	Percentage <u>Contributed</u>
06/30/2013	\$127,120	100%

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued):**

Liabilities and Assets

<u>Valuation Date</u>	Present Value of Future <u>Benefits</u>	Actuarial <u>Accrued Liability</u>	<u>Plan Assets</u>
06/30/13	\$ 4,182,402	\$ 3,606,867	\$ 0

**Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 26 years beginning July 1, 2011.

**NOTE 10. FUND BALANCE CLASSIFICATIONS:**

Beginning with the year ended June 30, 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, or laws or regulations of other governments or is imposed through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by formal City Council resolutions.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 10. FUND BALANCE CLASSIFICATIONS (continued):**

Assigned – 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 restricted or committed.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts have been restricted, committed or assigned.

**NOTE 11. NEW ACCOUNTING STANDARDS:**

The City adopted the provisions of Government Accounting Standards Board (GASB) Statement No 62, No 63, and No 65 as of July 1, 2012.

GASB No 62: The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA" pronouncements.

GASB No 63: This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identified net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

CITY OF ESSEXVILLE  
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

**NOTE 11. NEW ACCOUNTING STANDARDS (continued):**

GASB No 65: This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**NOTE 12. SUBSEQUENT EVENTS:**

Management has evaluated subsequent events and transactions for potential recognition and disclosure through November 15, 2013, the date the financial statements were available to be issued.

CITY OF ESSEXVILLE  
Bay County, Michigan

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2013

**FINDING 2013-01:** Noncompliance with deposit requirements for Bond Reserve and Repair and Replacement Accounts of the 2010 Sewage Disposal Bonds.

**Condition:** As detailed in Note 1 Section i - restricted cash of the financial statements, the City is required to make annual deposits into separately maintained bank accounts as required as a condition of the 2010 Sewage Disposal Bond agreement.

**Criteria:** The City did not make the required deposit into the reserve and repair accounts as of June 30, 2013. However, prior to the end of our fieldwork the omission was discovered by the treasurer and the required deposit into the reserve and repair accounts were made.

**Cause:** Due to other fiscal year end closing activities and other responsibilities there was an oversight in not making the required June 30 transfer of funds into the appropriate reserve and repair accounts.

**Effect:** Noncompliance with provisions of the loan agreement with U.S. Department of Agriculture Rural Development could cause loan to be in default.

**Recommendation:** City should establish a checklist of compliance items to be monitored on a periodic basis.

**City's Response:** The reserve and replacement accounts are now properly funded and reminder checklist have been established to adequately fund the accounts prior to June 30 in subsequent years.

REQUIRED SUPPLEMENTAL INFORMATION

## OTHER SUPPORTING INFORMATION