

CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2011

CITY OFFICIALS - As of June 30, 2011

Mayor	Russell R. Tanner
Mayor Pro tem	Dr. Richard Link
Council Member	Robert Mantei
Council Member	Michael Lutz
Council Member	Jennifer Gradowski
Council Member	Thomas Rehmus
Council Member	John Connelly
Treasurer	Fran DeWyse
Clerk	Sarah Wilcox
City Attorney	Gerald Pergande
Director of Public Safety	Tim Weiler
City Manager	Douglas Alexander
Director of Public Works	Dan Hansford

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

November 4, 2011

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 the City of Essexville, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Essexville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, 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* and should be considered in assessing the results of our audit.

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.

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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financials statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

QUAST, JANKE AND COMPANY



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 4, 2011

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

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 as of and for the year ended June 30, 2011, which collectively comprise the City of Essexville's basic financial statements and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Essexville's, internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Essexville's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding 2011-1 is a significant deficiency reported in the above mentioned schedule. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011. 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, 2011, by \$2,597,180. Of this amount \$1,252,114 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$434,347 during the year. Of this amount the assets of our governmental activities increased \$281,240 and the assets of our business-type activities increased by \$153,107.

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 Assets 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, 2011

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets, 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 Assets 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 Assets 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 assets, 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 assets 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 Assets 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.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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.

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. 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 Assets 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 Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets and a Statement of Cash Flows.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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 assets, and are 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.

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2011 and 2010.

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
ASSETS						
Current and other assets	\$ 1,666,992	\$ 1,642,919	\$ 789,839	\$ 530,715	\$ 2,456,831	\$ 2,173,634
Capital assets net of accumulated depreciation	<u>2,679,424</u>	<u>2,716,158</u>	<u>8,641,953</u>	<u>3,716,330</u>	<u>11,321,377</u>	<u>6,432,488</u>
Total Assets	<u>4,346,416</u>	<u>4,359,077</u>	<u>9,431,792</u>	<u>4,247,045</u>	<u>13,778,208</u>	<u>8,606,122</u>
LIABILITIES						
Current liabilities	543,774	912,709	422,096	197,945	965,870	1,110,654
Long-term liabilities	<u>3,040,669</u>	<u>2,965,635</u>	<u>7,174,489</u>	<u>2,367,000</u>	<u>10,215,158</u>	<u>5,332,635</u>
Total Liabilities	<u>3,584,443</u>	<u>3,878,344</u>	<u>7,596,585</u>	<u>2,564,945</u>	<u>11,181,028</u>	<u>6,443,289</u>
NET ASSETS						
Invested in capital assets of net related debt	(386,154)	(634,619)	1,545,705	1,360,839	1,159,551	726,220
Restricted	185,515	135,804	-	-	185,515	135,804
Unrestricted	<u>962,612</u>	<u>979,548</u>	<u>289,502</u>	<u>321,261</u>	<u>1,252,114</u>	<u>1,300,809</u>
Total Net Assets	<u>\$ 761,973</u>	<u>\$ 480,733</u>	<u>\$1,835,207</u>	<u>\$1,682,100</u>	<u>\$ 2,597,180</u>	<u>\$ 2,162,833</u>

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

The largest portion of the City's net assets 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 assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$1,252,114.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES:						
Charges for services	\$ 75,360	\$ 72,857	\$1,688,304	\$1,396,449	\$1,763,664	\$1,469,306
Operating grants	245,430	205,825	34,853	0	280,283	205,825
GENERAL REVENUES:						
Property taxes	1,355,421	1,374,281	5,358	40,749	1,390,779	1,415,030
State shared revenue	342,179	339,650	0	0	342,179	339,650
Unrestricted investment earnings	16,531	43,128	1,464	2,022	17,995	45,150
Miscellaneous	<u>0</u>	<u>15,000</u>	<u>0</u>	<u>(15,000)</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>\$2,034,921</u>	<u>\$2,050,741</u>	<u>\$1,759,979</u>	<u>\$1,424,220</u>	<u>\$3,794,900</u>	<u>\$3,474,961</u>
PROGRAM EXPENSES:						
General government	335,058	286,890	0	0	335,058	286,890
Public safety	571,638	588,930	0	0	571,638	588,930
Public works	85,885	77,663	0	0	85,885	77,663
Streets	220,781	247,389	0	0	220,781	247,389
Comm. & Econ. Development	29,272	16,283	0	0	29,272	16,283
Unallocated fringes	295,365	775,196	0	0	295,365	775,196
Recreational/cultural	38,209	28,409	0	0	38,209	28,409
Other	0	0	0	0	0	0
Interest	127,864	169,931	177,618	21,487	305,482	191,418
Sewer	0	0	619,659	778,474	619,659	778,474
Water	0	0	511,039	515,247	511,039	515,247
Refuse	0	0	298,556	310,049	298,556	310,049
Depreciation	<u>49,609</u>	<u>53,614</u>	<u>0</u>	<u>0</u>	<u>49,609</u>	<u>53,614</u>
Total Expenses	<u>1,753,681</u>	<u>2,244,305</u>	<u>1,606,872</u>	<u>1,625,257</u>	<u>3,360,553</u>	<u>3,869,562</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 281,240</u>	<u>\$(193,564)</u>	<u>\$ 153,107</u>	<u>\$(201,037)</u>	<u>\$ 434,347</u>	<u>\$(394,601)</u>

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Essexville completed its year, its governmental funds reported a total fund balance of \$1,458,217 which is less than the \$1,463,933 total fund balance at June 30, 2010.

- The General Fund, the operating fund for the City, ended FY11 with a \$1,050,454 balance compared to the prior year ending fund balance of \$1,110,825.
- The Major Street Fund Balance increased by \$8,176.
- The Local Street Fund Balance increased by \$33,330.
- The Debt Service Fund Balance increased by \$7,686.
- The DDA Fund increased by \$5,142.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

As the City of Essexville completed its year, its Business-Type Funds reported total net assets of \$1,835,207, which is more than the \$1,682,100 total fund balances at June 30, 2010.

- Sewer Fund net assets increased by \$159,388.
- Water Fund net assets increased by \$1,993.
- Refuse Fund net assets decreased by \$8,275.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2011, the City amended the budget four (4) 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 \$2,604,424 (net of accumulated depreciation) at June 30, 2011. Capital assets for business-type activities totaled \$8,641,953 (net of accumulated depreciation) at June 30, 2011. The notes to the financial statements contain more detail information about the City's capital assets.

The major capital outlays for Governmental Activities during the year included purchase of a used car for police patrol. For Business-Type Activities, there were significant additions in the Sewer Fund for retrofit of the wastewater treatment facility.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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 \$10,325,125 in outstanding bonds and loans. All debt in the business-type and governmental-activities is detailed below:

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

SRF Loan 1997

Balance June 30, 2011 \$ 800,000

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.

<u>Infrastructure Bond – 2000 Series (Original Bond Amount)</u>	\$ 2,000,000
Balance June 30, 2010	925,000
Balance June 30, 2011	0
<u>Infrastructure Bond - 2001 Series (Original Bond Amount)</u>	1,500,000
Balance June 30, 2010	1,075,000
Balance June 30, 2011	0
<u>Infrastructure Bond - 2002 Series (Original Bond Amount)</u>	1,500,000
Balance June 30, 2010	1,100,000
Balance June 30, 2011	0
<u>Combined Series - 2000, 2001, 2002 (Original Bond Amount)</u>	2,875,000
Balance June 30, 2010	0
Balance June 30, 2011	2,875,000

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011 is \$ 43,107.

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, 2011 is \$ 122,562. The debt is recorded in the City's Motor Vehicle and Equipment internal service fund. The Downtown Development Authority annually transfers an amount equal to the required annual debt payment to the Motor Vehicle and Equipment Fund.

Sewage Disposal Bonds Series 2010 - In 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, 2011, \$ 6,484,489 had been borrowed for the construction in progress.

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 ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business -Type Units	Total
ASSETS:			
Cash	\$ 1,203,804.22	\$ 447,566.86	\$ 1,651,371.08
Investments	350,000.00	0.00	350,000.00
Receivables	14,749.50	157,294.85	172,044.35
Receivable from state	95,174.82	0.00	95,174.82
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	188,241.41	188,241.41
Capital assets:			
Land	824,710.00	0.00	824,710.00
Buildings and improvements	985,735.00	0.00	985,735.00
Machinery and equipment	1,464,763.50	357,132.99	1,821,896.49
Infrastructure	830,582.10	0.00	830,582.10
Water and sewer systems	0.00	2,634,996.87	2,634,996.87
Construction in progress	0.00	6,593,651.59	6,593,651.59
Accumulated depreciation	<u>(1,426,367.02)</u>	<u>(943,828.93)</u>	<u>(2,370,195.95)</u>
Total Assets	4,346,416.12	9,431,791.64	13,778,207.76
LIABILITIES:			
Accounts payable	26,013.89	247,902.00	273,915.89
Accrued expenses	18,060.05	64,194.01	82,254.06
Accrued interest	24,909.17	0.00	24,909.17
Deferred revenue	0.00	0.00	0.00
Due to other governmental units	0.00	0.00	0.00
Other net postemployment obligation	474,791.00	0.00	474,791.00
Notes and bonds payable			
Amount due within one year	399,480.04	110,000.00	509,480.04
Amount due more than one year	<u>2,641,188.83</u>	<u>7,174,488.81</u>	<u>9,815,677.64</u>
Total Liabilities	3,584,442.98	7,596,584.82	11,181,027.80
NET ASSETS:			
Investment in capital assets net of related debt	(386,154.46)	1,545,705.12	1,159,550.66
Restricted for streets	137,346.80	0.00	137,346.80
Restricted for debt service	36,571.82	0.00	36,571.82
Restricted for public safety	11,597.13	0.00	11,597.13
Unrestricted	<u>962,611.85</u>	<u>289,501.70</u>	<u>1,252,113.55</u>
Total Net Assets	\$ <u>761,973.14</u>	\$ <u>1,835,206.82</u>	\$ <u>2,597,179.96</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, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
GOVERNMENTAL ACTIVITIES:							
General government	\$ 335,057.97	\$ 58,457.10	\$ 0.00	\$ 0.00	\$ (276,600.87)	\$ 0.00	\$ (276,600.87)
Public safety	571,638.33	15,850.00	1,458.13	0.00	(554,330.20)	0.00	(554,330.20)
Public works	85,884.56	0.00	0.00	0.00	(85,884.56)	0.00	(85,884.56)
Streets and highways	220,781.03	1,053.25	243,972.17	0.00	24,244.39	0.00	24,244.39
Community and economic development	29,271.80	0.00	0.00	0.00	(29,271.80)	0.00	(29,271.80)
Recreational and cultural	38,209.48	0.00	0.00	0.00	(38,209.48)	0.00	(38,209.48)
Unallocated fringes and retirement	295,365.32	0.00	0.00	0.00	(295,365.32)	0.00	(295,365.32)
Unallocated depreciation	49,608.96	0.00	0.00	0.00	(49,608.96)	0.00	(49,608.96)
Interest on debt	127,863.73	0.00	0.00	0.00	(127,863.73)	0.00	(127,863.73)
Total Governmental Activities	1,753,681.18	75,360.35	245,430.30	0.00	(1,432,890.53)	0.00	(1,432,890.53)
BUSINESS-TYPE ACTIVITIES							
Sewer	619,658.55	920,669.18	34,852.43	0.00	0.00	335,863.06	335,863.06
Water	511,038.89	512,790.01	0.00	0.00	0.00	1,751.12	1,751.12
Refuse	298,556.20	254,845.03	0.00	0.00	0.00	(43,711.17)	(43,711.17)
Interest on debt	177,617.94	0.00	0.00	0.00	0.00	(177,617.94)	(177,617.94)
Total Business-Type Activities	1,606,871.58	1,688,304.22	34,852.43	0.00	0.00	116,285.07	116,285.07
Total Primary Government	\$ 3,360,552.76	\$ 1,763,664.57	\$ 280,282.73	\$ 0.00	(1,432,890.53)	116,285.07	(1,316,605.46)
GENERAL PURPOSE REVENUES:							
Property taxes					1,355,420.89	35,358.38	1,390,779.27
State shared revenues					342,178.56	0.00	342,178.56
Unrestricted investment income					16,531.10	1,463.29	17,994.39
Other miscellaneous revenues					0.00	0.00	0.00
Transfers					0.00	0.00	0.00
Total General Purpose Revenues and Transfers					1,714,130.55	36,821.67	1,750,952.22
Change in Net Assets					281,240.02	153,106.74	434,346.76
Net Assets - Beginning of Year					480,733.12	1,682,100.08	2,162,833.20
Prior period adjustment					0.00	0.00	0.00
Net Assets - End of Year					\$ 761,973.14	\$ 1,835,206.82	\$ 2,597,179.96

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

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2011

	MAJOR FUNDS						TOTAL
	GENERAL	MAJOR STREETS	LOCAL STREETS	DEBT SERVICE	DDA	NONMAJOR GOVERNMENTAL	
ASSETS:							
Cash and certificates of deposit	\$ 757,160.05	\$ 762.54	\$ 101,431.99	\$ 36,358.00	\$ 124,771.37	\$ 12,505.08	\$ 1,032,989.03
Investments	250,000.00	0.00	0.00	0.00	100,000.00	0.00	350,000.00
Other receivables	924.05	0.00	0.00	0.00	0.00	0.00	924.05
Taxes receivable	376.41	0.00	0.00	213.82	38.70	0.00	628.93
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	71,944.00	26,610.81	9,678.01	0.00	0.00	0.00	108,232.82
TOTAL ASSETS	\$ 1,083,668.51	\$ 27,373.35	\$ 111,110.00	\$ 36,571.82	\$ 224,810.07	\$ 12,505.08	\$ 1,496,038.83
LIABILITIES:							
Accounts payable	\$ 17,760.96	\$ 46.14	\$ 147.90	\$ 0.00	2,442.00	\$ 550.44	\$ 20,947.44
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payroll withholdings	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accrued expenses	15,453.15	718.66	223.85	0.00	478.42	0.00	16,874.08
Due to other funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL LIABILITIES	33,214.11	764.80	371.75	0.00	2,920.42	550.44	37,821.52
FUND BALANCES:							
Nonspendable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Restricted for streets	0.00	26,608.55	110,738.25	0.00	0.00	0.00	137,346.80
Restricted for debt service	0.00	0.00	0.00	36,571.82	0.00	0.00	36,571.82
Restricted for DDA	0.00	0.00	0.00	0.00	221,889.65	0.00	221,889.65
Restricted for Inspections	0.00	0.00	0.00	0.00	0.00	357.51	357.51
Restricted for justice training	0.00	0.00	0.00	0.00	0.00	11,597.13	11,597.13
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	1,050,454.40	0.00	0.00	0.00	0.00	0.00	1,050,454.40
Total Fund Balances	1,050,454.40	26,608.55	110,738.25	36,571.82	221,889.65	11,954.64	1,458,217.31
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,083,668.51	\$ 27,373.35	\$ 111,110.00	\$ 36,571.82	\$ 224,810.07	\$ 12,505.08	\$ 1,496,038.83

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 ASSETS
June 30, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,458,217.31
Amounts reported for governmental activities in the Statement of Net Assets are different because -		
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds Balance Sheet:		
Bond refinancing costs		75,000.00
Capital assets at cost		2,269,769.10
Accumulated depreciation		(364,686.74)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds		
Loan payable		(43,107.07)
Bonds payable		(2,875,000.00)
Accrued interest		(24,909.17)
Net postemployment benefit obligation		(474,791.00)
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 Assets		
Net assets of internal service fund		<u>741,480.71</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u><u>761,973.14</u></u>

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, 2011

	GENERAL	MAJOR STREETS	LOCAL STREETS	DEBT SERVICE	DDA	NONMAJOR GOVERNMENTAL	TOTAL
REVENUES:							
Property taxes	\$ 810,030.79	\$ 0.00	\$ 0.00	\$ 448,274.45	\$ 97,115.65	\$ 0.00	\$ 1,355,420.89
Licenses and permits	48,843.72	0.00	0.00	0.00	0.00	0.00	48,843.72
Federal grants	0.00	0.00	0.00	0.00	0.00	0.00	0.00
State grants	342,178.56	178,908.34	65,063.83	0.00	0.00	1,458.13	587,608.86
Contributions from other units	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges for services	287.00	0.00	0.00	0.00	0.00	15,850.00	16,137.00
Fines and forfeits	6,696.39	0.00	0.00	0.00	0.00	0.00	6,696.39
Interest and rentals	14,537.45	96.96	212.57	174.61	1,476.02	33.49	16,531.10
Other revenue	2,629.99	1,053.25	0.00	0.00	0.00	0.00	3,683.24
Total Revenues	1,225,203.90	180,058.55	65,276.40	448,449.06	98,591.67	17,341.62	2,034,921.20
EXPENDITURES:							
General government	311,118.07	0.00	0.00	1,412.50	19,742.08	0.00	332,272.65
Public safety	531,867.87	0.00	0.00	0.00	0.00	30,021.79	561,889.66
Public works	85,884.56	121,882.43	81,946.14	0.00	0.00	0.00	289,713.13
Community and economic development	132.42	0.00	0.00	0.00	29,139.38	0.00	29,271.80
Cultural and recreation	36,816.81	0.00	0.00	0.00	0.00	0.00	36,816.81
Other	295,365.32	0.00	0.00	0.00	0.00	0.00	295,365.32
Capital outlay	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt service - principal	10,190.49	0.00	0.00	300,000.00	0.00	0.00	310,190.49
Debt service - interest	1,199.20	0.00	0.00	139,350.31	0.00	0.00	140,549.51
Total Expenditures	1,272,574.74	121,882.43	81,946.14	440,762.81	48,881.46	30,021.79	1,996,069.37
EXCESS OF REVENUES OVER EXPENDITURES	(47,370.84)	58,176.12	(16,669.74)	7,686.25	49,710.21	(12,680.17)	38,851.83
OTHER FINANCING SOURCES (USES):							
Bond proceeds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfer from other funds	0.00	0.00	50,000.00	0.00	0.00	13,000.00	63,000.00
Transfer to other funds	(13,000.00)	(50,000.00)	0.00	0.00	(44,567.78)	0.00	(107,567.78)
Total Other Financing Sources (Uses)	(13,000.00)	(50,000.00)	50,000.00	0.00	(44,567.78)	13,000.00	(44,567.78)
NET CHANGE IN FUND BALANCES	(60,370.84)	8,176.12	33,330.26	7,686.25	5,142.43	319.83	(5,715.95)
FUND BALANCE - July 1, 2010	1,110,825.24	18,432.43	77,407.99	28,885.57	216,747.22	11,634.81	1,463,933.26
FUND BALANCE - June 30, 2011	\$ 1,050,454.40	\$ 26,608.55	\$ 110,738.25	\$ 36,571.82	\$ 221,889.65	\$ 11,954.64	\$ 1,458,217.31

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, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (5,715.95)

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	-
Less depreciation expense	(49,608.96)

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 assets in the government wide statements.

Decrease in accrued interest	12,685.78
Principal payments	310,190.49
Increase in other post employment obligation	-

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.

13,688.66

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 281,240.02

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

CITY OF ESSEXVILLE
Essexville, Michigan

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2011

	Business-Type Activities				Governmental Activities Internal Service
	Major Enterprise Funds				
	Sewer Fund	Water Fund	Rubbish and Trash Fund	Total	
ASSETS:					
Current Assets:					
Cash	\$ 346,286.42	\$ 88,164.41	\$ 13,116.03	\$ 447,566.86	\$ 170,815.19
Accounts receivable	86,272.30	43,247.09	27,757.04	157,276.43	138.52
Delinquent taxes receivable	0.00	0.00	18.42	18.42	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	432,558.72	131,411.50	40,891.49	604,861.71	170,953.71
Noncurrent Assets:					
Restricted cash	188,241.41	0.00	0.00	188,241.41	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	0.00
Equipment	166,589.96	190,543.03	0.00	357,132.99	1,761,021.50
Water and sewer systems	2,274,833.78	360,163.09	0.00	2,634,996.87	0.00
Accumulated depreciation	(799,307.53)	(144,521.40)	0.00	(943,828.93)	(1,061,680.28)
Construction in progress	6,593,651.59	0.00	0.00	6,593,651.59	0.00
Total Noncurrent Assets	8,424,009.21	406,184.72	0.00	8,830,193.93	699,341.22
Total Assets	8,856,567.93	537,596.22	40,891.49	9,435,055.64	870,294.93
LIABILITIES:					
Current Liabilities:					
Accounts payable	199,022.15	29,703.20	19,176.65	247,902.00	5,066.45
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	59,485.68	3,375.23	1,333.10	64,194.01	1,185.97
Current portion - revenue bonds payable	110,000.00	0.00	0.00	110,000.00	39,060.26
Total Current Liabilities	371,771.83	33,078.43	20,509.75	425,360.01	45,312.68
Noncurrent Liabilities:					
Revenue bonds/note payable	7,174,488.81	0.00	0.00	7,174,488.81	83,501.54
Total Noncurrent Liabilities	7,174,488.81	0.00	0.00	7,174,488.81	83,501.54
Total Liabilities	7,546,260.64	33,078.43	20,509.75	7,599,848.82	128,814.22
NET ASSETS:					
Invested in capital assets net of related debt	1,139,520.40	406,184.72	0.00	1,545,705.12	576,779.42
Unrestricted	170,786.89	98,333.07	20,381.74	289,501.70	164,701.29
Total Net Assets	\$ 1,310,307.29	\$ 504,517.79	20,381.74	\$ 1,835,206.82	\$ 741,480.71

Reconciliation of Government Wide Statement of Net Assets:

Net Assets of Business-Type Activities \$ 1,835,206.82

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 ASSETS
Year Ended June 30, 2011

	Business-Type Activities				Governmental Activities
	Major Enterprise Funds				
	Sewer Fund	Water Fund	Refuse Fund	Total	
OPERATING REVENUES:					
Charges for services					
Water charges	\$ 0.00	\$ 500,178.83	\$ 0.00	\$ 500,178.83	\$ 0.00
Sewer charges	902,983.06	0.00	0.00	902,983.06	0.00
Water hydrant rental	0.00	0.00	0.00	0.00	0.00
Property taxes	0.00	0.00	35,358.38	35,358.38	0.00
Refuse charges	0.00	0.00	249,340.99	249,340.99	0.00
Rental income	0.00	0.00	0.00	0.00	228,600.50
Late payment fees	17,686.12	9,314.81	5,004.04	32,004.97	0.00
Miscellaneous	0.00	3,296.37	500.00	3,796.37	0.00
Total Operating Revenues	920,669.18	512,790.01	290,203.41	1,723,662.60	228,600.50
OPERATING EXPENSES:					
Salaries	110,313.34	89,292.11	25,270.63	224,876.08	34,548.69
Payroll taxes	17,809.08	6,642.54	1,889.36	26,340.98	2,545.50
Water purchases	0.00	280,330.11	0.00	280,330.11	0.00
Chemicals	18,997.10	0.00	0.00	18,997.10	0.00
Supplies	19,073.25	9,642.79	486.08	29,202.12	63,089.02
Retirement	9,941.57	12,996.15	5,174.92	28,112.64	7,586.55
Contractual services	228,991.44	7,596.40	226,254.09	462,841.93	14,186.88
Insurance	3,270.00	1,177.72	1,698.52	6,146.24	10,828.00
Office supplies	618.13	384.02	0.00	1,002.15	0.00
Repairs and maintenance	0.00	0.00	0.00	0.00	0.00
Utilities	46,105.48	0.00	0.00	46,105.48	19,226.74
Health insurance	46,890.90	41,721.30	17,305.72	105,917.92	23,497.68
Equipment rental	25,968.09	26,561.69	19,897.88	72,427.66	0.00
Administrative	0.00	0.00	0.00	0.00	0.00
Rent	12,500.00	12,500.00	0.00	25,000.00	0.00
Other costs	3,431.56	1,592.13	579.00	5,602.69	(294.14)
Depreciation	75,748.61	20,601.93	0.00	96,350.54	77,442.31
Total Operating Expenses	619,658.55	511,038.89	298,556.20	1,429,253.64	252,657.23
Operating Income	301,010.63	1,751.12	(8,352.79)	294,408.96	(24,056.73)
NONOPERATING REVENUES(EXPENSES):					
Property taxes	0.00	0.00	0.00	0.00	0.00
Interest Income	1,143.34	242.01	77.94	1,463.29	422.21
Interest credit on build America bonds	34,852.43	0.00	0.00	34,852.43	0.00
Sale of capital asset	0.00	0.00	0.00	0.00	0.00
Interest expense	(177,617.94)	0.00	0.00	(177,617.94)	(7,244.60)
Total Nonoperating Revenues(Expenses)	(141,622.17)	242.01	77.94	(141,302.22)	(6,822.39)
Income Before Contributions and Transfers	159,388.46	1,993.13	(8,274.85)	153,106.74	(30,879.12)
Transfers in	0.00	0.00	0.00	0.00	44,567.78
Transfers out	0.00	0.00	0.00	0.00	0.00
Change in Net Assets	159,388.46	1,993.13	(8,274.85)	153,106.74	13,688.66
Net Assets Beginning of Year	1,150,918.83	502,524.66	28,656.59	1,682,100.08	727,792.05
Prior period adjustment	0.00	0.00	0.00	0.00	0.00
Net Assets End of Year	\$ 1,310,307.29	\$ 504,517.79	\$ 20,381.74	\$ 1,835,206.82	\$ 741,480.71
Change in Net Assets Government-Wide Business Activities				\$ 153,106.74	

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

CITY OF ESSEXVILLE
Essexville, Michigan

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	Business-Type Activities				Governmental Activities Internal Service
	Major Enterprise Funds			Total	
	Sewer Fund	Water Fund	Refuse Fund		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 915,590.19	\$ 510,306.62	\$ 287,176.50	\$ 1,713,073.31	\$ 0.00
Other operating cash receipts	0.00	3,296.37	500.00	3,796.37	228,600.50
Cash payments to suppliers for goods and services	(205,814.43)	(409,599.72)	(273,360.66)	(888,774.81)	(142,472.95)
Cash payments to employees for services	(110,313.34)	(89,410.59)	(25,253.77)	(224,977.70)	(34,559.68)
Net cash provided (used) by operating activities	<u>599,462.42</u>	<u>14,592.68</u>	<u>(10,937.93)</u>	<u>603,117.17</u>	<u>51,567.87</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:					
Transfers from (to) other funds	0.00	0.00	0.00	0.00	44,567.78
Funding of bond restricted cash	(71,733.00)	0.00	0.00	(71,733.00)	0.00
Net cash provided (used) by noncapital financing activities	<u>(71,733.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>(71,733.00)</u>	<u>44,567.78</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets	(5,021,972.50)	0.00	0.00	(5,021,972.50)	(15,316.50)
Interest credit on Build America bonds	34,852.43	0.00	0.00	34,852.43	0.00
Proceeds from sale of capital assets	0.00	0.00	0.00	0.00	0.00
Additional bond proceeds	4,923,000.00	0.00	0.00	4,923,000.00	0.00
Debt payments					
Interest paid on bonds	(177,617.94)	0.00	0.00	(177,617.94)	(7,244.60)
Principal payments on bonds	(110,511.19)	0.00	0.00	(110,511.19)	(37,323.18)
Net cash provided (used) by capital and related financing activities	<u>(352,249.20)</u>	<u>0.00</u>	<u>0.00</u>	<u>(352,249.20)</u>	<u>(59,884.28)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	1,143.34	242.01	77.94	1,463.29	422.21
Net increase (decrease) in cash	176,623.56	14,834.69	(10,859.99)	180,598.26	36,673.58
Cash beginning of year	169,662.86	73,329.72	23,976.02	266,968.60	134,141.61
Cash end of year	<u>\$ 346,286.42</u>	<u>\$ 88,164.41</u>	<u>\$ 13,116.03</u>	<u>\$ 447,566.86</u>	<u>\$ 170,815.19</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Income (loss) from operations	\$ 301,010.63	\$ 1,751.12	\$ (8,352.79)	\$ 294,408.96	\$ (24,056.73)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:					
Depreciation	75,748.61	20,601.93	0.00	96,350.54	77,442.31
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(5,078.99)	812.98	(2,526.91)	(6,792.92)	761.48
Increase (decrease) in accounts payable	172,073.19	(8,454.87)	(41.37)	163,576.95	(2,590.18)
Increase (decrease) in accrued expenses	55,708.98	(118.48)	(16.86)	55,573.64	10.99
Net Cash Provided (Used) in Operating Activities	<u>\$ 599,462.42</u>	<u>\$ 14,592.68</u>	<u>\$ (10,937.93)</u>	<u>\$ 603,117.17</u>	<u>\$ 51,567.87</u>

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

CITY OF ESSEXVILLE
Essexville, Michigan

FIDUCIARY FUNDS - AGENCY FUNDS
 STATEMENT OF NET ASSETS
June 30, 2011

	Employee Benefit Fund Type <u>Fringe Benefit Fund</u>		Agency Fund Type <u>Tax Collection Fund</u>
ASSETS:			
Cash and certificates of deposit	\$ 60,113.33	\$	0.00
Due from general fund	0.00		0.00
Due from water fund	0.00		0.00
Total Assets	<u>60,113.33</u>		<u>0.00</u>
LIABILITIES:			
Due to other funds	<u>0.00</u>		<u>0.00</u>
Total Liabilities	<u>0.00</u>		<u>0.00</u>
Net Assets			
Held in trust for benefits	\$ <u><u>60,113.33</u></u>	\$	<u><u>0.00</u></u>

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 ASSETS
June 30, 2011

		Employee Benefit Fund Type <u>Separation Pay Fund</u>
ADDITIONS		
Employer Contributions		
Motor Vehicle Fund	\$	1,519.04
Rubbish and Trash Fund		428.77
Major Street Fund		638.08
Inspection Fund		537.95
DDA Fund		597.19
Water Fund		<u>2,909.25</u>
		6,630.28
Investment Income		
Interest		<u>195.38</u>
Total Additions		6,825.66
DEDUCTIONS		
Decrease in Employee Benefits		<u>17,449.50</u>
Change in Net Assets		(10,623.84)
Net Assets Beginning of Year		<u>70,737.15</u>
Net Assets End of Year	\$	<u><u>60,113.31</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, 2011

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 (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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

C: BASIS OF PRESENTATION:

Government-Wide Statements

The *government-wide financial statements* (the Statement of Net Assets and the Statement of Changes in Net Assets) 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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

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 several interest and principal payments on the bonds.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

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.

Refuse Fund –

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

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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 assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. 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 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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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.

G: PROPERTY TAXES:

The City's property taxes are levied and become a lien each July 1st, based on the taxable valuation of property located in the City as of the preceding December 31st. These taxes are due on August 31st or with the final collection date of March 2nd 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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

The taxable valuation of City properties totaled \$81,600,297. Ad Valorem taxes levied on this valuation consisted of 9.7266 mills for City operations; .4500 mills for trash collection; 1.0000 mills for the Downtown Development Authority; and 5.6987 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, 2011 is included in the Fringe Benefit Fund.

I: RESTRICTED CASH:

The City's 2011 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 \$38,400.00 deposited into the account each June 30th until there is accumulated a sum of \$384,000.00. Total funds in the bond reserve account at June 30, 2011 are \$47,237.26. These funds are restricted to be used for future debt payments.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

The repair and replacement account required an initial deposit of \$100,000.00 into the fund. Each June 30th, the amount of \$33,333.00 is to be deposited into the repair and replacement account until the sum of \$384,000.00 has been deposited in the bond reserve account after which the amount of \$71,733.00 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, 2011 totaled \$141,004.15.

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.
- All annual appropriations lapse at fiscal year end.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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>
GOVERNMENTAL ACTIVITIES						
2000 G.O. Bond	5.50	75,000-150,000	\$ 925,000	\$ (925,000)	\$ 0	\$ 0
2001 G.O. Bond	4 - 4.85	50,000-225,000	\$ 1,075,000	\$ (1,075,000)	\$ 0	\$ 0
2002 G.O. Bond	4 - 4.85	25,000-200,000	\$ 1,100,000	\$ (1,100,000)	\$ 0	\$ 0
Refunding of 2000, 2001, and 2002 G.O. Bonds	2 – 3.25		<u>\$ 0.00</u>	<u>\$ 2,875,000</u>	<u>\$ 2,875,000</u>	<u>\$ 385,000</u>
Total Bonds			\$ 3,100,000	\$ (225,000)	\$ 2,875,000	\$ 385,000
Loan – Independent Bank	4.45	34,189-45,656	\$ 159,885	\$ (37,357)	\$ 122,528	\$ 39,027
Revitalization Loan	2.25	9,948-11,139	<u>\$ 53,298</u>	<u>\$ (10,190)</u>	<u>\$ 43,108</u>	<u>\$ 10,420</u>
Total Governmental Activities			<u>\$ 3,313,183</u>	<u>\$ (272,547)</u>	<u>\$3,040,636</u>	<u>\$ 434,447</u>
BUSINESS-TYPE ACTIVITIES						
<u>Sewer Fund</u>						
SRF Loan payable	2.25	90,000-120,000	\$ 905,000	\$ (105,000)	\$ 800,000	\$ 105,000
2010 Sewage Disposal Bonds	3.25	5,000-500,000	<u>\$ 1,567,000</u>	<u>\$ 4,917,489</u>	<u>\$6,484,489</u>	<u>\$ 5,000</u>
Total Business-Type Activities			<u>\$ 2,472,000</u>	<u>\$ 4,812,489</u>	<u>\$7,284,489</u>	<u>\$ 110,000</u>

Annual debt service requirements are detailed in the indebtedness schedules.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 1</u>	<u>Additions/</u> <u>Retirements/</u> <u>Completions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 824,710	\$ -	\$ -	\$ 824,710
Capital assets being depreciated				
Buildings and improvements	985,735	-	-	985,735
Construction in progress	-	-	-	-
Infrastructure	755,582	-	-	755,582
Vehicles	1,191,260	(4,380)	-	1,186,880
Furniture and equipment	<u>277,884</u>	<u>-</u>	<u>-</u>	<u>277,884</u>
Subtotal	4,035,171	(4,380)	-	4,030,791
Less accumulated depreciation	<u>1,319,013</u>	<u>107,354</u>	<u>-</u>	<u>1,426,367</u>
Net capital assets	<u>\$ 2,716,158</u>	<u>\$ (111,734)</u>	<u>\$ -</u>	<u>\$ 2,604,424</u>
Business –type activities:				
Capital assets not being depreciated				
Construction in progress	\$ 1,571,679	\$ 5,021,973	\$ -	\$ 6,593,652
Capital assets being depreciated				
Buildings and improvements	1,876,411	-	-	1,876,411
Water and sewer distribution systems	758,586	-	-	758,586
Furniture and equipment	<u>357,133</u>	<u>-</u>	<u>-</u>	<u>357,133</u>
Subtotal	2,992,130	-	-	2,992,130
Less accumulated depreciation	<u>847,478</u>	<u>96,351</u>	<u>-</u>	<u>943,829</u>
Net capital assets	<u>\$ 3,716,331</u>	<u>\$ 4,925,622</u>	<u>\$ -</u>	<u>\$ 8,641,953</u>

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5. INTERFUND BALANCES AND TRANSFERS:

The composition of interfund receivable and payable balances at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ 3,264.00

Purpose - Temporary reclassification of expenditures.

The composition of inter-fund transfers during the fiscal year ended June 30, 2011 is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 50,000.00

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

Inspection Fund	General Fund	\$ 13,000.00
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Purpose - To eliminate fund deficit.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Internal Service Fund	DDA Fund	\$ 44,567.78

Purpose – To transfer funds to cover debt payment.

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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 1,203,804.22	\$ 635,808.27	\$ 60,113.33	\$ 1,839,612.49
Investments	<u>350,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>350,000.00</u>
Total	<u>\$ 1,553,804.22</u>	<u>\$ 635,808.27</u>	<u>\$ 60,113.33</u>	<u>\$ 2,189,612.49</u>

Deposits and investments:

Bank deposits (checking, savings, and certificates of deposit)	\$ 1,899,475.82
Cash on hand	250.00
Investments (securities and stocks)	<u>350,000.00</u>
Total	<u>\$ 2,249,725.82</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, 2011, the carrying value of deposits owned by the City was \$ 1,926,698. Approximately \$ 1,268,399 of the City's bank balance was covered by federal depository insurance. The remaining balance \$ 658,299 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 depositories.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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, 2011:

<u>Type of Investment</u>	<u>Carrying Value</u>
Government-wide:	
U.S Government and Agency Securities	\$ 100,000
Fifth Third Instl Govt Money Market Fund	150,000
Component Unit:	
U.S Government and Agency Securities	<u>100,000</u>
Total	<u>\$ 350,000</u>

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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

As of June 30, 2011, 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	100,000	3.54 Years	AAA
Fifth Third Instl Govt Money Market Fund	150,000	1.46 Years	N/A
Component Unit			
US Government and Agency Securities:			
Federal Home Loan Banks	100,000	.06 Years	AAA

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, 2011

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, 2010. The City's covered payroll for employees covered by MERS for the year ended December 31, 2010 was \$833,327 per the actuarial report. Data on covered versus total payroll was available in the latest actuarial evaluation.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):

As of December 31, 2010, 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	20
Active plan participants:	
Vested members	18
Vested former members	<u>4</u>
Total Active	<u>23</u>
Total Participants	42

Funding Policy

The City is required to contribute at an actuarially determined rate. The rate varies by divisions of employees from 2.04% to 27.08% 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, 2011, the City's annual pension cost of \$104,333 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, 2010, 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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8. DEFINED BENEFIT PENSION PLAN (continued):

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.

UNFUNDED ACTUARIAL ACCRUED LIABILITY

	12/31/2010	12/31/2009
Actuarial Accrued Liability		
Retirees and beneficiaries currently receiving benefits	\$3,345,829	\$ 3,041,516
Terminated employees (vested former members not yet receiving benefits)	150,344	139,066
Non-vested terminated employees (pending refunds of accumulated member contributions)	0	0
Current employees -		
Accumulated employee contributions including allocated investment income	551,361	651,956
Employer financed	<u>2,131,515</u>	<u>2,152,852</u>
Total Actuarial Accrued Liability	\$6,139,049	\$ 5,985,390
Net Assets Available for Benefits at Actuarial Value	<u>5,118,960</u>	<u>5,106,408</u>
(Market Value is \$4,401,812 and \$4,079,682)		
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$1,020,089</u>	<u>\$ 878,982</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>
Annual pension cost (APC)	\$ 46,181	\$ 51,426	\$ 74,309	\$ 87,255	\$ 102,376	\$ 230,900	\$108,504	\$107,375
Percentage of APC contributed	100%	100%	100%	100%	100%	100%	100%	100%

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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%

ANNUAL REQUIRED CONTRIBUTIONS

Fiscal Year Beginning	July 1, 2012
Annual Required Contribution (ARC)	\$ 128,016
Amortization Factor Used – Underfunded Liabilities (28 years)	0.055889
Amortization Factor Used – Underfunded Liabilities (12 years)	0.103112
Amortization Factor Used – Underfunded Liabilities (10 years)	0.119963

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011, 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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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	\$ 474,791
Contributions made	<u>(-)</u>
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	<u>474,791</u>
Net OPEB obligation, end of year	\$ 474,791

Funded Status and Funding Process

As of June 30, 2011, the actuarial accrued liability for benefits was \$474,791 all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$833,327 and the ratio of the UAAL to the covered payroll was 57%.

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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/2009	474,791	0.00%

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
06/30/2009	\$ 0	\$5,311,219	\$5,311,219	0.00%	\$906,078	586%

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.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 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 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.

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.

The provisions of GASB 54 have been retroactively applied to the prior year and the financial statements have been restated to reflect these changes. These changes had no effect on net income.

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, 2011

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 805,033.00	\$ 805,033.00	\$ 810,030.79	\$ 4,997.79
Licenses and permits	35,625.00	35,625.00	48,843.72	13,218.72
State and local grants	322,512.00	322,512.00	342,178.56	19,666.56
Contributions from other units	0.00	0.00	0.00	0.00
Fines and fees	2,400.00	2,400.00	6,696.39	4,296.39
Charges for services	50.00	50.00	287.00	237.00
Interest	22,856.00	22,856.00	14,537.45	(8,318.55)
Rental	0.00	0.00	0.00	0.00
Other revenue	3,200.00	3,200.00	2,629.99	(570.01)
Total Revenues	1,191,676.00	1,191,676.00	1,225,203.90	33,527.90
EXPENDITURES:				
General Government -				
Legislative - council	25,798.00	25,798.00	24,348.80	1,449.20
Administration	75,534.00	92,955.00	91,585.97	1,369.03
Elections	7,800.00	4,300.00	4,207.29	92.71
Assessor	21,833.00	24,101.00	23,998.87	102.13
Attorney	25,000.00	30,040.00	29,869.05	170.95
Board of Review	907.00	907.00	778.71	128.29
Clerk	48,634.00	44,634.00	44,034.92	599.08
Treasurer	26,241.00	26,241.00	25,759.77	481.23
Forestry	11,453.00	14,953.00	14,933.87	19.13
City Hall	37,482.00	47,482.00	47,203.82	278.18
Accounting & auditing	4,397.00	4,397.00	4,397.00	0.00
Promotional	5,500.00	4,900.00	4,751.00	149.00
Public Safety -				
Fire	36,742.00	37,742.00	36,616.10	1,125.90
Police	518,499.00	495,599.00	495,251.77	347.23
Public Works -				
Sidewalks	8,041.00	0.00	0.00	0.00
Street lighting	50,000.00	73,000.00	71,981.09	1,018.91
Department of public works	15,685.00	14,185.00	13,903.47	281.53
Parks and Recreation -				
Parks and recreation	21,145.00	33,000.00	32,065.81	934.19
Community and Economic Development -				
Planning	2,125.00	625.00	42.00	583.00
Zoning	419.00	419.00	90.42	328.58
Capital outlay	10,000.00	0.00	0.00	0.00
Debt service	11,399.00	11,399.00	11,389.69	9.31
Other functions - fringe benefits	296,966.00	227,000.00	226,731.75	268.25
Other functions - retirement	0.00	68,900.00	68,633.57	266.43
Total Expenditures	1,261,600.00	1,282,577.00	1,272,574.74	10,002.26
OTHER FINANCING SOURCES (USES):				
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	(28,477.00)	(13,000.00)	(13,000.00)	0.00
Net Other Financing Sources (Uses)	(28,477.00)	(13,000.00)	(13,000.00)	0.00
NET CHANGE IN FUND BALANCE	(98,401.00)	(103,901.00)	(60,370.84)	43,530.16
FUND BALANCE - BEGINNING OF YEAR	1,110,825.24	1,110,825.24	1,110,825.24	0.00
FUND BALANCE - END OF YEAR	\$ 1,012,424.24	\$ 1,006,924.24	\$ 1,050,454.40	\$ 43,530.16

CITY OF ESSEXVILLE
Essexville, Michigan

LOCAL STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
State grants	\$ 57,974.00	\$ 57,974.00	\$ 65,063.83	\$ 7,089.83
Interest	1,993.00	1,993.00	212.57	(1,780.43)
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	59,967.00	59,967.00	65,276.40	5,309.40
EXPENDITURES:				
Public Works -				
Administration	4,105.00	4,105.00	3,746.11	358.89
Storm drainage	17,184.00	21,184.00	20,252.85	931.15
Nonmotorized	0.00	6,156.00	5,945.27	210.73
Routine maintenance	20,518.00	12,750.00	12,748.63	1.37
Traffic signs and signals	5,965.00	1,965.00	886.06	1,078.94
Winter maintenance	24,695.00	14,295.00	13,866.94	428.06
Other functions - insurance	22,512.00	24,512.00	24,500.28	11.72
Total Expenditures	94,979.00	84,967.00	81,946.14	3,020.86
EXCESS REVENUES OVER EXPENDITURES	(35,012.00)	(25,000.00)	(16,669.74)	8,330.26
OTHER FINANCING SOURCES (USES):				
Transfer from major street	25,000.00	50,000.00	50,000.00	0.00
Transfer to fringe benefit fund	435.00	0.00	0.00	0.00
Total Transfers	25,435.00	50,000.00	50,000.00	0.00
Excess (deficiency) of revenues over expenditures and other uses	(9,577.00)	25,000.00	33,330.26	8,330.26
FUND BALANCE - BEGINNING OF YEAR	77,407.99	77,407.99	77,407.99	0.00
FUND BALANCE - END OF YEAR	\$ 67,830.99	\$ 102,407.99	\$ 110,738.25	\$ 8,330.26

CITY OF ESSEXVILLE
Essexville, Michigan

MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
State grants	\$ 159,554.00	\$ 159,554.00	\$ 178,908.34	\$ 19,354.34
Contribution from special assessments	0.00	0.00	0.00	0.00
Interest	664.00	664.00	96.96	(567.04)
Federal grant	0.00	0.00	0.00	0.00
State grants - other	230,000.00	230,000.00	0.00	(230,000.00)
Other	100.00	100.00	1,053.25	953.25
Total Revenues	390,318.00	390,318.00	180,058.55	(210,259.45)
EXPENDITURES:				
Public Works -				
Preservation	200,000.00	175,000.00	0.00	175,000.00
Administration	11,288.00	11,288.00	10,594.05	693.95
Storm drainage	57,868.00	57,868.00	29,891.94	27,976.06
Routine maintenance	33,368.00	13,368.00	16,905.39	(3,537.39)
Traffic signs and signals	10,062.00	16,062.00	16,736.99	(674.99)
Trunkline maintenance	0.00	0.00	0.00	0.00
Winter maintenance	38,747.00	25,747.00	24,627.52	1,119.48
Other functions - insurance	25,441.00	25,441.00	23,126.54	2,314.46
Total Expenditures	376,774.00	324,774.00	121,882.43	202,891.57
EXCESS REVENUES OVER EXPENDITURES	13,544.00	65,544.00	58,176.12	(7,367.88)
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	517.00	517.00	0.00	(517.00)
Transfer to local street	(25,000.00)	(50,000.00)	(50,000.00)	0.00
Total Other Financing Sources	(24,483.00)	(49,483.00)	(50,000.00)	(517.00)
Excess (deficiency) of revenues over expenditures and other uses	(10,939.00)	16,061.00	8,176.12	(7,884.88)
FUND BALANCE - BEGINNING OF YEAR	18,432.43	18,432.43	18,432.43	0.00
FUND BALANCE - END OF YEAR	\$ 7,493.43	\$ 34,493.43	\$ 26,608.55	\$ (7,884.88)

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, 2011

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 447,401.00	\$ 447,401.00	\$ 448,274.45	\$ 873.45
State grants	0.00	0.00	0.00	0.00
Interest	538.00	538.00	174.61	(363.39)
Local contributions	0.00	0.00	0.00	0.00
Total Revenues	447,939.00	447,939.00	448,449.06	510.06
EXPENDITURES:				
Debt service				
Principal	300,000.00	300,000.00	300,000.00	0.00
Interest	144,051.00	144,051.00	139,350.31	4,700.69
General government Administration	3,000.00	3,000.00	1,412.50	1,587.50
Total Expenditures	447,051.00	447,051.00	440,762.81	6,288.19
EXCESS REVENUES OVER EXPENDITURES	888.00	888.00	7,686.25	6,798.25
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to general fund	0.00	0.00	0.00	0.00
Total Transfers	0.00	0.00	0.00	0.00
Excess (deficiency) of revenues over expenditures and other uses	888.00	888.00	7,686.25	6,798.25
FUND BALANCE - BEGINNING OF YEAR	28,885.57	28,885.57	28,885.57	0.00
FUND BALANCE - END OF YEAR	\$ 29,773.57	\$ 29,773.57	\$ 36,571.82	\$ 6,798.25

CITY OF ESSEXVILLE
Essexville, Michigan

DDA FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
REVENUES:				
Property tax	\$ 97,837.00	\$ 97,837.00	\$ 97,115.65	\$ (721.35)
Interest	4,271.00	4,271.00	1,476.02	(2,794.98)
Federal grant	0.00	0.00	0.00	0.00
State grants - other	0.00	0.00	0.00	0.00
Other	100.00	0.00	0.00	0.00
Total Revenues	102,208.00	102,108.00	98,591.67	(3,516.33)
EXPENDITURES:				
Administration	15,316.00	21,316.00	19,742.08	1,573.92
Economic development	27,881.00	16,381.00	17,750.38	(1,369.38)
Project activities	50,000.00	12,000.00	11,389.00	611.00
Capital outlay	0.00	0.00	0.00	0.00
Total Expenditures	93,197.00	49,697.00	48,881.46	815.54
EXCESS REVENUES OVER EXPENDITURES	9,011.00	52,411.00	49,710.21	(2,700.79)
OTHER FINANCING SOURCES (USES):				
Transfer from other funds	0.00	0.00	0.00	0.00
Transfer to equipment fund	(44,568.00)	(44,568.00)	(44,567.78)	0.22
Transfer to local street	0.00	0.00	0.00	0.00
Total Other Financing Sources	(44,568.00)	(44,568.00)	(44,567.78)	0.22
Excess (deficiency) of revenues over expenditures and other uses	(35,557.00)	7,843.00	5,142.43	(2,700.57)
FUND BALANCE - BEGINNING OF YEAR	216,747.22	216,747.22	216,747.22	0.00
FUND BALANCE - END OF YEAR	\$ 181,190.22	\$ 224,590.22	\$ 221,889.65	\$ (2,700.57)

OTHER SUPPORTING INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan

BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	<u>Special Revenue Funds</u>		<u>Capital Projects</u>	
	<u>Inspection Fund</u>	<u>Justice Training Fund</u>	<u>Street Repair Improvement Fund</u>	<u>Total</u>
<u>ASSETS:</u>				
Assets:				
Cash and certificate of deposit	\$ 907.95	\$ 11,597.13	\$ 0.00	\$ 12,505.08
Due from other funds	0.00	0.00	0.00	0.00
Other receivables	0.00	0.00	0.00	0.00
Taxes receivable	0.00	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>907.95</u>	\$ <u>11,597.13</u>	\$ <u>0.00</u>	\$ <u>12,505.08</u>
 <u>LIABILITIES:</u>				
Liabilities:				
Due to other funds	0.00	0.00	0.00	0.00
Accounts payable	550.44	0.00	0.00	550.44
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	550.44	0.00	0.00	550.44
 <u>FUND BALANCES:</u>				
Restricted for inspections	357.51	0.00	0.00	357.51
Restricted for justice training	0.00	11,597.13	0.00	11,597.13
Restricted for capital projects	0.00	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	357.51	11,597.13	0.00	11,954.64
Total Liabilities and Fund Balances	\$ <u>907.95</u>	\$ <u>11,597.13</u>	\$ <u>0.00</u>	\$ <u>12,505.08</u>

CITY OF ESSEXVILLE
Essexville, Michigan

NONMAJOR GOVERNMENT FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2011

	<u>Special Revenue Funds</u>		<u>Capital Projects</u>	Total Nonmajor Government Funds
	<u>Inspection Fund</u>	<u>Justice Training Fund</u>	<u>Street Repair Improvement Fund</u>	
REVENUES:				
Property taxes	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State grants	0.00	1,458.13	0.00	1,458.13
Contributions from other units	0.00	0.00	0.00	0.00
Charges for services	15,850.00	0.00	0.00	15,850.00
Interest	2.38	31.11	0.00	33.49
Rental	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00
Total Revenues	15,852.38	1,489.24	0.00	17,341.62
EXPENDITURES:				
General government	0.00	0.00	0.00	0.00
Public safety	29,051.79	970.00	0.00	30,021.79
Public works	0.00	0.00	0.00	0.00
Community and economic development	0.00	0.00	0.00	0.00
Recreation and culture	0.00	0.00	0.00	0.00
Capital outlay	0.00	0.00	0.00	0.00
Debt service:				
Principal	0.00	0.00	0.00	0.00
Interest	0.00	0.00	0.00	0.00
Total Expenditures	29,051.79	970.00	0.00	30,021.79
OTHER FINANCING SOURCES (USES):				
Transfer from general fund	13,000.00	0.00	0.00	13,000.00
Transfer to water fund	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	13,000.00	0.00	0.00	13,000.00
NET CHANGE IN FUND BALANCE	(199.41)	519.24	0.00	319.83
FUND BALANCE - BEGINNING OF YEAR	556.92	11,077.89	0.00	11,634.81
FUND BALANCE - END OF YEAR	\$ 357.51	\$ 11,597.13	\$ 0.00	\$ 11,954.64

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2011

REVENUES:	
Taxes -	
Property taxes	\$ 763,042.50
Penalties and interest	5,397.03
Administration fees	<u>41,591.26</u>
Total Taxes	810,030.79
State and Local Grants -	
State revenue sharing	326,116.00
Other state grants	4,000.00
State metro act	10,500.56
Local grant - general	0.00
Liquor license fees	<u>1,562.00</u>
Total State and Local Grants	342,178.56
Contributions from other units -	
School police officer	<u>0.00</u>
Total Other Unit Contributions	0.00
Licenses and permits -	
Misc permits	935.00
Cable franchise fee	47,868.72
Cat and dog licenses	<u>40.00</u>
Total Licenses and Permits	48,843.72
Fines and penalties	6,696.39
Charges for services -	
Fire runs	0.00
Administrative services	0.00
Police/fire reports	0.00
Other charges	287.00
Weed cutting	<u>0.00</u>
Total Charges for Services	287.00
Interest and Rentals -	
Interest	14,537.45
Rents	<u>0.00</u>
Total Interest and Rentals	14,537.45
Other Revenues -	
Donations	125.00
Sale of assets	0.00
Misc	<u>2,504.99</u>
Total Other Revenues	<u>2,629.99</u>
Total Revenues	<u>1,225,203.90</u>
Other sources and uses -	
Transfer to equipment fund	0.00
Transfer to inspection fund	(13,000.00)
Transfer to separation pay	<u>0.00</u>
Total Transfers	(13,000.00)
EXPENDITURES	<u>1,272,574.74</u>
NET CHANGE IN FUND BALANCE	(60,370.84)
FUND BALANCE - July 1, 2010	<u>1,110,825.24</u>
FUND BALANCE - June 30, 2011	\$ <u><u>1,050,454.40</u></u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
 DETAIL OF EXPENDITURES
Year Ended June 30, 2011

EXPENDITURES:

GENERAL GOVERNMENT:

Mayor and City Council -

Salaries	\$	7,314.00
Fringes and taxes		559.63
Printing and publications		1,078.35
Membership dues		2,414.00
Supplies and other		12,982.82
		<hr/>

Total Legislative 24,348.80

City Manager -

Wages		76,412.55
Fringes and taxes		8,547.69
Telephone		1,852.36
Supplies and other		4,773.37
		<hr/>

Total Manager 91,585.97

Elections -

Salaries		3,516.75
Fringes and taxes		19.13
Office supplies		185.41
Printing and publications		78.00
Supplies and other		408.00
		<hr/>

Total Elections 4,207.29

Clerk -

Wages		29,126.05
Fringes and taxes		1,947.83
Office supplies		1,238.98
Postage		7,577.30
Supplies and other		4,144.76
		<hr/>

Total Clerk 44,034.92

Attorney-

Contracted services		29,869.05
Other costs		0.00
		<hr/>

Total Attorney 29,869.05

Assessor -

Salaries		14,865.00
Fringes and taxes		1,137.12
Printing and other costs		7,996.75
		<hr/>

Total Assessor 23,998.87

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2011

EXPENDITURES (CONT.):

GENERAL GOVERNMENT (CONT.):

Treasurer		
Salaries	\$	17,604.30
Fringes and taxes		1,295.45
Office supplies		2,211.57
Telephone		708.79
Supplies and other		<u>3,939.66</u>
Total Treasurer		25,759.77
Board of Review		
Salaries		500.00
Other costs		<u>278.71</u>
Total Board of Review		778.71
Accounting		
Audit		<u>4,397.00</u>
Total Accounting		4,397.00
Forestry		
Salaries		3,026.56
Fringes and taxes		233.99
Supplies and other		<u>11,673.32</u>
Total Forestry		14,933.87
City Hall and Grounds -		
Salaries		1,756.34
Supplies		131.34
Insurance		3,134.00
Utilities		13,625.66
Repairs and maintenance		14,414.70
Contractual services		11,733.88
Other costs		<u>2,407.90</u>
Total City Hall and Grounds		<u>47,203.82</u>
Total General Government		311,118.07

PUBLIC SAFETY:

Public Safety - Police		
Salaries		387,632.29
Fringes and taxes		28,938.04
Office and postage		1,361.03
Operating supplies		6,890.51
Insurance		11,349.50
Telephone		7,339.98
Repairs and maint		2,696.89
Uniforms		5,292.85
Equipment rental		39,999.96
Other		<u>3,750.72</u>
Public Safety - Police		495,251.77

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2011

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

Public Safety - Fire	
Salaries	\$ 17,760.93
Fringes and taxes	1,215.08
Training	5,998.28
Supplies	6,426.36
Equipment rental	5,215.45
	<hr/>
Total Public Safety - Fire	36,616.10
Total Public Safety	531,867.87

PUBLIC WORKS:

Department of Public Works -	
Contractual services	2,426.00
Telephone	2,330.27
Supplies	1,257.01
Uniforms	1,107.21
Insurance	3,690.00
Other	3,092.98
	<hr/>
Total DPW	13,903.47

Sidewalks	
Salaries	0.00
Supplies	0.00
	<hr/>
Total Sidewalks	0.00

Street Lighting	<hr/>
	71,981.09
Total Public Works	85,884.56

COMMUNITY AND ECONOMIC DEVELOPMENT:

Planning	
Consultants and other costs	42.00
Zoning	
Contractual services	90.42
	<hr/>
Total Community and Economic Development	132.42

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (Continued)
Year Ended June 30, 2011

EXPENDITURES (CONT.):

RECREATION AND CULTURAL:

Parks and Recreation-

Wages	\$	5,041.06
Fringes and taxes		368.46
Contractual services		12,928.39
Utilities		3,907.13
Equipment rental		6,858.43
Supplies and other		<u>2,962.34</u>

Total Parks and Recreation 32,065.81

Community Relations

Civic betterment		4,751.00
Community schools		<u>0.00</u>

Total Community Relations 4,751.00

Total Recreation and Cultural 36,816.81

OTHER:

Employee benefits		216,582.29
Debt payments - Principal		10,190.49
Debt payments - Interest		1,199.20
Employer's share of retirement		68,633.57
Other common costs		<u>10,149.46</u>

Total Other 306,755.01

CAPITAL OUTLAY:

General government		0.00
Parks and recreation		<u>0.00</u>

Total Capital Outlay 0.00

Total Expenditures \$ 1,272,574.74

CITY OF ESSEXVILLE
Essexville, Michigan

DPW BUILDING IMPROVEMENT LOAN - INTERNAL SERVICE FUND
SCHEDULE OF INDEBTEDNESS
June 30, 2011

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>
6/1/2012	\$ 39,060.26	\$ 5,540.90	\$ 44,601.16
6/1/2013	40,802.83	3,764.95	44,567.78
6/1/2014	42,698.71	1,924.00	44,622.71
	<u>\$ 122,561.80</u>	<u>\$ 11,229.85</u>	<u>\$ 133,791.65</u>

CITY OF ESSEXVILLE
Bay County, Michigan

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

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 \$2,800,000
 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
2011	\$ 385,000.00	2.000%	\$ 43,591.04	\$ 32,987.50	\$ 461,578.54
2012	405,000.00	2.000%	32,987.50	28,937.50	466,925.00
2013	470,000.00	2.250%	28,937.50	23,650.00	522,587.50
2014	510,000.00	2.500%	23,650.00	17,275.00	550,925.00
2015	545,000.00	3.000%	17,275.00	9,100.00	571,375.00
2016	<u>560,000.00</u>	3.250%	<u>9,100.00</u>	<u>0.00</u>	<u>569,100.00</u>
	<u>\$ 2,875,000.00</u>		<u>\$ 155,541.04</u>	<u>\$ 111,950.00</u>	<u>\$ 3,142,491.04</u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL INDEBTNESS -
 REVITALIZATION REVOLVING LOAN
 SCHEDULE OF INDEBTEDNESS
June 30, 2011

INTEREST RATE: 2.25%
 ORIGINAL ISSUE: 100,983

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
7/1/2011	\$ paid 6-11	\$ 0.00	\$ 0.00
7/1/2012	10,419.78	969.91	11,389.69
7/1/2013	10,654.23	735.46	11,389.69
7/1/2014	10,893.95	495.74	11,389.69
7/1/2015	11,139.11	250.58	11,389.69
	\$ <u>43,107.07</u>	\$ <u>2,451.69</u>	\$ <u>45,558.76</u>

CITY OF ESSEXVILLE
Essexville, Michigan

SEWER FUND SRF LOAN
 SCHEDULE OF INDEBTEDNESS
June 30, 2011

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>
10/1/2011	\$ 105,000.00	\$ 9,000.00	\$ 114,000.00
4/1/2012	0.00	7,818.75	7,818.75
10/1/2012	110,000.00	7,818.75	117,818.75
4/1/2013	0.00	6,581.25	6,581.25
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>800,000.00</u>	\$ <u>64,687.50</u>	\$ <u>864,687.50</u>

CITY OF ESSEXVILLE
Essexville, Michigan

SEWAGE DISPOSAL SYSTEM REVENUE BONDS, SERIES 2010
SCHEDULE OF INDEBTEDNESS
June 30, 2011

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, 2011: 6,484,488.81

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	\$ 121,550.00	\$ 121,550.00
2012	5,000.00	3.250%	121,550.00	121,468.75	248,018.75
2013	5,000.00	3.250%	121,468.75	121,387.50	247,856.25
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>\$ 7,480,000.00</u>		<u>\$ 3,266,006.25</u>	<u>\$ 3,266,006.25</u>	<u>\$ 14,012,012.50</u>

Schedule is based upon full borrowings available for bonds, balance of loan at 6-30-11 is 6,484,488.81

CITY OF ESSEXVILLE
Bay County, Michigan

SCHEUDLE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	\$1,095,488.81

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

NOTE A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal loan activity of the City of Essexville and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The majority of expenditures paid with loan proceeds have been capitalized in the sewer fund and are recorded in the financial statements as a fixed asset rather than an expense.

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

1010 N. JOHNSON STREET
BAY CITY, MICHIGAN 48708
Phone: (989) 892-4549
Fax: (989) 892-4030

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American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

November 4, 2011

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

Compliance

We have audited the City of Essexville's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Essexville's major federal programs for the year ended June 30, 2011. The City of Essexville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Essexville's management. Our responsibility is to express an opinion on the City of Essexville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Essexville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Essexville's compliance with those requirements.

In our opinion, the City of Essexville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Essexville is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Essexville's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Essexville's internal control over compliance.

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

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

The City Council
The City of Essexville
November 4, 2011
Page 3

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

QUAST, JANKE & COMPANY

Quast, Janke and Company

Certified Public Accountants, P.C.

CITY OF ESSEXVILLE
Bay County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS:

1. The auditor’s report expresses an unqualified opinion on the financial statements of The City of Essexville.
2. One significant deficiency in internal control over financial reporting was disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of The City of Essexville were disclosed during the audit of the financial statements.
4. No significant deficiencies relating to the audit of the major federal programs are reported in the Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor’s report on compliance for the major federal award programs for The City of Essexville expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule. None
7. The programs tested as major programs included:
ARRA - Water and Waste Disposal Systems for Rural Communities, CFDA 10.781.
8. The threshold for distinguishing Types A and B programs was \$300,000
9. The City of Essexville did not qualify as a low-risk auditee.

CITY OF ESSEXVILLE
Bay County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant deficiencies in internal control over financial reporting:

Finding 2011-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: The City is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including footnotes.

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: We do not recommend any changes to this situation at this time but remind Council to understand this circumstance when performing their oversight responsibilities.

CITY OF ESSEXVILLE
Bay County, Michigan

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2011

Federal Audit Clearinghouse

The City of Essexville respectfully submits the following corrective action plan for the year ended June 30, 2011.

Name and address of independent public accounting firm:
Quast, Janke & Company, P.C.
1010 N, Johnson Street
Bay City, MI 48708

Audit Period: June 30, 2011

The findings from the June 30, 2011 schedule of findings and questioned costs are discussed above. The findings are numbered consistently with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT COMPLIANCE

2011-01

Recommendation: We do not recommend any changes to this situation at this time but remind Council to understand this circumstance when performing their oversight responsibilities.

Action Taken: Management will remind Council of this circumstance when they perform their oversight responsibilities.

If the Federal Audit Clearinghouse has questions regarding this plan, please call Douglas Alexander at (989) 893-0772.

Sincerely yours,

Douglas Alexander
City Manager

CITY OF ESSEXVILLE
Bay County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2011

Finding 2010-1

Condition: The City is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance.

Current Status: The City does not prepare its financial statements in accordance with GAAP and still relies on its external auditors for assistance. This is a repeat finding in the current year.

Finding 2010-2

Condition: The City used spreadsheets to maintain a list of expenditures related to federal awards. Recipients of federal awards must maintain an accounting of federal award expenditures separately identifiable in the accounting records.

Current Status: The City has added additional accounts to their chart of accounts to track the federal program expenditures. The City prepares a schedule of expenditures of federal awards and reconciles it to the accounting records.

This finding has been satisfactorily resolved. Not a current year finding.