

Audited Financial Statements

City of Essexville
Bay County, Michigan

*Year Ended June 30, 2018
with Report of Independent Auditors*



City of Essexville
Audited Financial Statements
Year Ended June 30, 2018

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Report of Independent Auditors

To the City Council
City of Essexville

Report on the Financial Statements

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 (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Essexville as of June 30, 2018, 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.

Emphasis of a Matter

As discussed in Note 1 and Note 9 to the financial statements, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This statement requires the City to report its net post-employment obligation and associated deferred outflows of resources, deferred inflows of resources, and post-employment expense. The City has restated its July 1, 2017 net position accordingly. In addition, as discussed in Note 14, the City has restated its beginning net position for its water and sewer funds to reflect the full amount of services receivable as of the beginning of the year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11, the pension and other post-employment benefit information on pages 58-61, and the budgetary comparison information on pages 62-67, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Essexville's basic financial statements. The combining and individual nonmajor fund financial statements for the year ended June 30, 2018 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards for the year ended June 30, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2018.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019, on our consideration of the City of Essexville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Essexville's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Midland, Michigan
January 4, 2019

City of Essexville

Management's Discussion and Analysis

June 30, 2018

This discussion and analysis of the City of Essexville's financial performance provides an overview of the City's financial activities for the year that ended on June 30, 2018. Please read it in conjunction with the financial statements following this section.

Financial Highlights

- The liabilities of the City exceeded its assets at the close of the most recent year by \$963,101 (negative net position). Of this amount, \$4,281,719 represents negative unrestricted net position. The negative unrestricted net position results from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* ("OPEB").
- The City's total net position decreased by \$163,130 due to recording approximately \$3.8 million in long-term liabilities of Other Post-Employment Benefits required by GASB Statement No. 75.
- At the close of the current year, the City's governmental funds reported combined fund balances of \$1,043,933, an increase of \$12,298 in comparison with the prior year. Approximately 70% of this amount, which is \$729,904, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current year, unrestricted fund balance (the total of committed, assigned, and unassigned components of fund balance) for the General Fund was \$729,904, or approximately 48% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

City of Essexville

Management's Discussion and Analysis

June 30, 2018

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all, or a significant portion of, their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community development, and recreation and culture. The business-type activities of the City include sewer, water, and rubbish operations.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

City of Essexville

Management's Discussion and Analysis

June 30, 2018

The City maintains five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison schedules for each major fund have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are used to report activities that provide supplies and services to the City's other programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund, Water Fund, and Rubbish and Trash Fund, each of which is considered to be a major fund of the City. The internal service fund is also presented in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains two fiduciary funds. One is a trust fund for maintaining amounts for vacation pay. The other is an agency fund report that reports resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to the City's employee benefit plans and budget-to-actual comparisons for the General Fund, Major Street Fund, Local Street Fund, Debt Service Fund, and the Downtown Development Authority Fund.

City of Essexville

Management's Discussion and Analysis

June 30, 2018

The combining statements referred to earlier in connection with the nonmajor governmental fund is presented immediately following the aforementioned required supplementary information.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$963,101 at the close of the most recent year.

City of Essexville's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current assets	\$ 1,041,260	\$ 1,073,533	\$ 1,190,981	\$ 1,122,214	\$ 2,232,241	\$ 2,195,747
Capital assets, net	3,527,876	3,228,928	12,621,166	9,140,858	16,149,042	12,369,786
Total assets	4,569,136	4,302,461	13,812,147	10,263,072	18,381,283	14,565,533
Deferred outflows of resources	213,746	185,932	-	-	213,746	185,932
Liabilities						
Current liabilities	114,256	41,531	463,907	596,405	578,163	637,936
Long-term liabilities	6,011,109	2,730,866	12,575,092	8,936,000	18,586,201	11,666,866
Total liabilities	6,125,365	2,772,397	13,038,999	9,532,405	19,164,364	12,304,802
Deferred inflows of resources	393,766	-	-	-	393,766	-
Net position						
Net investment in capital assets	3,113,515	3,228,928	(108,926)	19,858	3,004,589	3,248,786
Restricted	314,029	52,204	-	-	314,029	52,204
Unrestricted	(5,163,793)	(1,565,136)	882,074	710,809	(4,281,719)	(854,327)
Total net position	\$ (1,736,249)	\$ 1,715,996	\$ 773,148	\$ 730,667	\$ (963,101)	\$ 2,446,663

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining amount of (\$4,281,719) represents negative unrestricted net position created by the recording the net pension and OPEB liabilities as required by GASB 68 and GASB 75.

City of Essexville

Management's Discussion and Analysis

June 30, 2018

City of Essexville's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 246,071	\$ 88,664	\$ 1,728,721	\$ 1,747,644	\$ 1,974,792	\$ 1,836,308
Operating grants and contributions	440,446	327,402	-	28,040	440,446	355,442
General revenues:						
Property taxes and fees	970,337	1,534,852	260,068	259,921	1,230,405	1,794,773
Grants and contributions not restricted to programs	391,224	373,588	-	-	391,224	373,588
Interest earnings	5,344	9,368	1,982	1,644	7,326	11,012
Gain on sale of assets	30,000	-	-	-	30,000	-
Transfers	(275,000)	(100,000)	275,000	100,000	-	-
Miscellaneous	7,765	3,167	72,646	-	80,411	3,167
Total revenues	1,816,187	2,237,041	2,338,417	2,137,249	4,154,604	4,374,290
Expenses						
General government	749,933	288,396	-	-	749,933	288,396
Public safety	645,134	619,491	-	-	645,134	619,491
Public works	498,175	65,879	-	-	498,175	65,879
Streets	-	272,928	-	-	-	272,928
Community development	4,384	11,809	-	-	4,384	11,809
Unallocated fringes	-	77,243	-	-	-	77,243
Recreation and culture	22,903	20,921	-	-	22,903	20,921
Interest on long-term debt	-	4,550	-	242,449	-	246,999
Sewer	-	-	1,194,156	917,032	1,194,156	917,032
Water	-	-	887,094	620,252	887,094	620,252
Refuse	-	-	315,955	314,012	315,955	314,012
Depreciation	-	79,660	-	-	-	79,660
Total expenses	1,920,529	1,440,877	2,397,205	2,093,745	4,317,734	3,534,622
Change in net position	(104,342)	796,164	(58,788)	43,504	(163,130)	839,668
Net position-beginning	1,715,996	919,832	730,667	687,163	2,446,663	1,606,995
Cumulative effect of change in accounting principle	(3,347,903)	-	-	-	(3,347,903)	-
Prior period adjustment	-	-	101,269	-	101,269	-
Net position-beginning, as restated	(1,631,907)	-	831,936	-	(799,971)	-
Net position-ending	\$ (1,736,249)	\$ 1,715,996	\$ 773,148	\$ 730,667	\$ 963,101	\$ 2,446,663

City of Essexville

Management's Discussion and Analysis

June 30, 2018

Governmental Activities. During the current year, net position for governmental activities decreased \$104,342 from the prior year for an ending balance of (\$1,736,249). This decrease was the result of a variety of factors including changes to the pension and OPEB liabilities.

Business-Type Activities. During the current year, net position for business-type activities decreased \$58,788 from the prior year for an ending balance of \$733,148. The current year decrease was due to various factors.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At June 30, 2018, the City's governmental funds reported combined fund balances of \$1,043,933, an increase of \$12,298 in comparison with the prior year. Approximately 70% of this amount constitutes unassigned fund balance of \$729,904, which is available for spending at the City's discretion. The remainder of the fund balance (\$314,029) is restricted for particular purposes.

The General Fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$729,904, which accounted for the entire General Fund balance. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 40% of total General Fund expenditures.

The fund balance of the City's General Fund decreased \$186,945 during the current year. This decrease was due primarily to increases in capital outlay. Overall revenues decreased \$457,854 and expenditures increased by \$469,648 compared to the prior year.

City of Essexville

Management's Discussion and Analysis

June 30, 2018

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Sewer Fund at the end of the year was \$535,832, for the Water Fund was \$244,758, and for the Rubbish and Trash Fund was \$90,113. The total increase in net position for the Sewer Fund was \$20,231, the Water Fund's net position decreased \$110,720, and the Rubbish Fund's net position increased \$20,330. As noted earlier in the discussion of business-type activities, the change in net position for the Sewer Fund, Water Fund, and Rubbish and Trash Fund resulted from various factors.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. During the year there was no need for any significant amendments to increase the original estimated revenues, appropriations, or other financing sources or uses.

Final Budget Compared to Actual Results. The most significant differences between estimated revenues and actual revenues were in the categories of state revenue and donations due to timing of grant funding and donations received for various projects. The most significant differences between estimated expenditures and actual expenditures were in the following categories: accounting and auditing, City attorney, forestry, police department, pension, and capital outlay for public safety and resulted from unforeseen legal and accounting services needed, changes in accounting for pension and OPEB, and the purchase of a firetruck.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$16,149,043 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, infrastructure, equipment and the sewer and water systems. The total increase in capital assets for the current fiscal year was approximately 31%.

City of Essexville's Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 819,931	\$ 819,931	\$ -	\$ -	\$ 819,931	\$ 819,931
Buildings	762,179	778,189	-	-	762,179	778,189
Equipment	44,517	58,477	285,547	317,914	330,064	376,391
Vehicles	484,782	111,309	-	-	484,782	111,309
System	-	-	12,335,619	8,822,944	12,335,619	8,822,944
Infrastructure	1,416,468	1,460,965	-	-	1,416,468	1,460,965
	\$3,527,877	\$3,228,871	\$ 12,621,166	\$ 9,140,858	\$16,149,043	\$12,369,729

City of Essexville

Management's Discussion and Analysis

June 30, 2018

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$13,144,453. Of this amount, \$12,730,092 is debt backed by the full faith and credit of the government. The remainder of the City's long-term obligations comprises installment purchase contracts.

City of Essexville's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ -	\$ -	\$ 12,730,092	\$ 9,121,000	\$ 12,730,092	\$ 9,121,000
Installment purchase contracts	414,361	-	-	-	414,361	-
	<u>\$ 414,361</u>	<u>\$ -</u>	<u>\$ 12,730,092</u>	<u>\$ 9,121,000</u>	<u>\$ 13,144,453</u>	<u>\$ 9,121,000</u>

The City's total debt increased by \$4,023,453, or 44%, during the current year. The reason for the increase is due to additional bonded debt incurred related to the 2017 UDSA water project and the purchase of a firetruck.

Economic Factors and Next Year's Budgets and Rates

Projected revenues and expenditures for 2017-2019 are assumed to increase 2% per year in each category. These assumptions are based upon data accumulated about the history of total ad valorem assessed and taxable values, the consumer price index from 1997-2015, property tax revenues from years 2010-2015, and state revenue sharing (on the State of Michigan's fiscal year) from 2000-2015. In addition, the City has ongoing cost containment efforts in place.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either: Mr. Daniel Hansford, City Manager, email: cmanager@essexville.org or Ms. Kim Van Tifflin, City Treasurer, email: ctreasurer@essexville.org.

City of Essexville

Statement of Net Position

June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 370,490	\$ 389,490	\$ 759,980
Investments	547,000	-	547,000
Accounts receivable, net	2,956	274,388	277,344
Assessments receivable, net	2,559	7,412	9,971
Internal balances	(11,371)	11,371	-
Due from other governmental units	121,763	-	121,763
Due from other funds	7,863	-	7,863
Restricted cash and cash equivalents	-	508,320	508,320
Capital assets, net:			
Assets not being depreciated	819,931	-	819,931
Assets being depreciated	2,707,945	12,621,166	15,329,111
Total assets	4,569,136	13,812,147	18,381,283
Deferred outflows of resources			
Related to pension and OPEB	213,746	-	213,746
Liabilities			
Accounts payable	21,094	244,672	265,766
Accrued liabilities	12,638	3,900	16,538
Accrued interest payable	-	59,735	59,735
Deposits and other liabilities	-	600	600
Long-term debt:			
Due in one year	80,524	155,000	235,524
Due in more than one year	333,837	12,575,092	12,908,929
Net pension liability	1,919,056	-	1,919,056
Net OPEB liability	3,758,216	-	3,758,216
Total liabilities	6,125,365	13,038,999	19,164,364
Deferred inflows of resources			
Related to pension	393,766	-	393,766
Net position			
Net investment in capital assets	3,113,515	(108,926)	3,004,589
Restricted for:			
Streets and highways	211,676	-	211,676
Community development	102,353	-	102,353
Unrestricted	(5,163,793)	882,074	(4,281,719)
Total net position	\$ (1,736,249)	\$ 773,148	\$ (963,101)

City of Essexville

Statement of Activities

Year Ended June 30, 2018

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		Total
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 749,933	\$ 90,240	\$ -	\$ -	\$ (659,693)		\$ (659,693)
Public safety	645,134	8,431	53,294	-	(583,409)		(583,409)
Public works	498,175	147,400	387,152	-	36,377		36,377
Community development	4,384	-	-	-	(4,384)		(4,384)
Recreation and culture	22,903	-	-	-	(22,903)		(22,903)
Total governmental activities	1,920,529	246,071	440,446	-	(1,234,012)		(1,234,012)
Business-type activities:							
Sewer	1,194,156	935,438	-	-		\$ (258,718)	(258,718)
Water	887,094	525,861	-	-		(361,233)	(361,233)
Rubbish and trash fund	315,955	267,422	-	-		(48,533)	(48,533)
Total business-type activities	2,397,205	1,728,721	-	-		(668,484)	(668,484)
Total primary government	\$ 4,317,734	\$ 1,974,792	\$ 440,446	\$ -		(668,484)	(1,902,496)
General revenues:							
Property taxes and related fees					970,337	260,068	1,230,405
Grants and contributions not restricted to specific programs					391,224	-	391,224
Interest earnings					5,344	1,982	7,326
Gain on sale of assets					30,000	-	30,000
Miscellaneous					7,765	72,646	80,411
Transfers					(275,000)	275,000	-
Total general revenues					1,129,670	609,696	1,739,366
Change in net position					(104,342)	(58,788)	(163,130)
Net position-beginning					1,715,996	730,667	2,446,663
Cumulative effect of change in accounting principle					(3,347,903)	-	(3,347,903)
Prior period adjustment					-	101,269	101,269
Net position-beginning as adjusted					(1,631,907)	831,936	(799,971)
Net position-ending					\$ (1,736,249)	\$ 773,148	\$ (963,101)

See accompanying notes.

City of Essexville

Governmental Funds Balance Sheet

June 30, 2018

	General	Major Streets	Local Streets	DDA	Nonmajor Governmental Funds	Total
Assets						
Cash and cash equivalents	\$ 232,001	\$ 133,307	\$ 11,981	\$ 2,237	\$ 8,851	\$ 388,377
Investments	447,000	-	-	100,000	-	547,000
Accounts receivable, net	2,956	-	-	-	-	2,956
Assessments receivable, net	2,559	-	-	-	-	2,559
Due from other governmental units	62,133	43,748	15,882	-	-	121,763
Due from other funds	7,671	-	-	192	-	7,863
Total assets	<u>\$ 754,320</u>	<u>\$ 177,055</u>	<u>\$ 27,863</u>	<u>\$ 102,429</u>	<u>\$ 8,851</u>	<u>\$ 1,070,518</u>
Liabilities, deferred inflows of resources, and fund balances						
Liabilities:						
Accounts payable	\$ 14,486	\$ -	\$ 102	\$ -	\$ 100	\$ 14,688
Accrued liabilities	9,930	778	1,113	76	-	11,897
Total liabilities	24,416	778	1,215	76	100	26,585
Fund balances:						
Restricted - streets and highways	-	176,277	26,648	-	8,751	211,676
Restricted - debt service	-	-	-	-	-	-
Restricted - DDA	-	-	-	102,353	-	102,353
Unassigned	729,904	-	-	-	-	729,904
Total fund balances	<u>729,904</u>	<u>176,277</u>	<u>26,648</u>	<u>102,353</u>	<u>8,751</u>	<u>1,043,933</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 754,320</u>	<u>\$ 177,055</u>	<u>\$ 27,863</u>	<u>\$ 102,429</u>	<u>\$ 8,851</u>	<u>\$ 1,070,518</u>

City of Essexville

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

June 30, 2018

Total fund balances for governmental funds \$ 1,043,933

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Capital assets 3,848,835
Accumulated depreciation (805,881)

Deferred outflows represent financial uses, but are deferred expenses in the government-wide financial statements. 213,746

Deferred inflows represent deferred pension-related financial sources that are recognized in future periods in the government-wide financial statements. (393,766)

The internal service funds are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 448,517

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances as of June 30, 2018 are:

Installment purchase contracts (414,361)
Net pension & OPEB liabilities (5,677,272)

Total net position of governmental activities \$ (1,736,249)

City of Essexville

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

Year Ended June 30, 2018

	General	Major Streets	Local Streets	Debt Service	DDA	Other Governmental Funds	Total
Revenues							
Property taxes and related fees	\$ 940,184	\$ -	\$ -	\$ -	\$ 30,153	\$ -	\$ 970,337
Licenses and permits	80,813	-	-	-	-	-	80,813
Federal grants	1,790	-	-	-	-	-	1,790
State grants	370,278	256,407	118,340	-	33,351	954	779,330
Charges for services	271	-	-	-	-	-	271
Interest earnings	4,777	-	-	-	567	-	5,344
Fines and forfeitures	9,156	-	-	-	-	-	9,156
Donations	80,550	-	-	-	-	-	80,550
Miscellaneous	1,859	-	341	-	-	-	2,200
Total revenues	1,489,678	256,407	118,681	-	64,071	954	1,929,791
Expenditures							
General government	299,013	-	-	-	-	-	299,013
Public safety	642,634	-	-	-	-	2,500	645,134
Public works	65,181	121,302	92,768	-	24,300	-	303,551
Community development	4,384	-	-	-	-	-	4,384
Recreation and culture	22,903	-	-	-	-	-	22,903
Capital outlay	415,465	-	-	-	-	-	415,465
Other functions - benefits	366,404	-	-	-	-	-	366,404
Total expenditures	1,815,984	121,302	92,768	-	24,300	2,500	2,056,854
Excess (deficiency) of revenues over expenditures	(326,306)	135,105	25,913	-	39,771	(1,546)	(127,063)
Other financing sources (uses)							
Proceeds from leasing arrangement	414,361	-	-	-	-	-	414,361
Transfers in	-	-	-	-	-	-	-
Transfers out	(275,000)	-	-	-	-	-	(275,000)
Total other financing sources (uses)	139,361	-	-	-	-	-	139,361
Net change in fund balances	(186,945)	135,105	25,913	-	39,771	(1,546)	12,298
Fund balances-beginning	916,849	41,172	735	-	62,582	10,297	1,031,635
Fund balances-ending	\$ 729,904	\$ 176,277	\$ 26,648	\$ -	\$ 102,353	\$ 8,751	\$ 1,043,933

See accompanying notes.

City of Essexville

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

Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 12,298

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay 415,465
Subtract: depreciation expense (80,100)

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Add: decrease in net pension liability net of related deferred outflows and inflows 35,543

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Add: repayments of installment purchase contract -
Subtract: proceeds from fire truck lease (414,361)

The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within governmental activities.

Net operating income (loss) from governmental activities in internal service funds (69,087)
Other reconciling items (4,100)
Change in net position of governmental activities \$ (104,342)

City of Essexville

Proprietary Funds Statement of Net Position

June 30, 2018

	Proprietary Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Rubbish and Trash Fund		
Assets					
Current assets:					
Cash and cash equivalents	\$ 115,997	\$ 219,671	\$ 53,822	\$ 389,490	\$ (17,887)
Accounts receivable, net	146,811	89,361	38,216	274,388	-
Assessments receivable, net	3,763	1,809	1,840	7,412	-
Restricted current assets:					
Cash and cash equivalents	427,922	80,398	-	508,320	-
Total current assets	694,493	391,239	93,878	1,179,610	(17,887)
Noncurrent assets:					
Capital assets:					
Buildings and improvements, net	-	-	-	-	398,191
Equipment, net	285,547	-	-	285,547	3,715
Vehicles, net	-	-	-	-	83,016
Sewer and water system infrastructure, net	6,552,409	5,783,210	-	12,335,619	-
Total noncurrent assets	6,837,956	5,783,210	-	12,621,166	484,922
Total assets	7,532,449	6,174,449	93,878	13,800,776	467,035
Liabilities					
Current liabilities:					
Accounts payable	97,113	144,520	3,039	244,672	6,406
Accrued expenses	1,495	1,679	726	3,900	741
Accrued interest payable	59,735	-	-	59,735	-
Deposits and other liabilities	318	282	-	600	-
Bonds and contracts payable	70,000	85,000	-	155,000	-
Total current liabilities	228,661	231,481	3,765	463,907	7,147
Noncurrent liabilities:					
Bonds and contracts payable	7,217,000	5,358,092	-	12,575,092	-
Total liabilities	7,445,661	5,589,573	3,765	13,038,999	7,147
Net position					
Net investment in capital assets	(449,044)	340,118	-	(108,926)	484,922
Unrestricted	535,832	244,758	90,113	870,703	(25,034)
Total net position	\$ 86,788	\$ 584,876	\$ 90,113	\$ 761,777	\$ 459,888

City of Essexville

Reconciliation of Net Position on the Statement of Net Position for Enterprise Funds to
the Net Position of Business-Type Activities on the Statement of Net Position

June 30, 2018

Net position - total enterprise funds \$ 761,777

Total net position reported for business-type activities in the statement of net position is different because:

The internal service fund is used by the City to charge the cost of operating mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service fund is included in the business-type activities in the statement of net position.

11,371

Total net position of business-type activities

\$ 773,148

City of Essexville

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2018

	Proprietary Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Rubbish and Trash Fund		
Operating revenues					
Charges for services	\$ 935,438	\$ 525,861	\$ 267,422	\$ 1,728,721	\$ 147,400
Property taxes and related fees	-	192,349	67,719	260,068	-
Miscellaneous	6,826	64,676	1,144	72,646	5,565
Total operating revenues	942,264	782,886	336,285	2,061,435	152,965
Operating expenses					
Salaries and wages	73,614	122,219	28,327	224,160	38,397
Payroll taxes	5,433	8,721	2,087	16,241	2,792
Water purchases	-	291,485	-	291,485	-
Employee benefits	52,799	36,420	18,585	107,804	26,352
Retirement	16,641	20,232	5,984	42,857	7,979
Supplies	6,479	7,426	-	13,905	59,348
Postage	2,000	2,000	-	4,000	-
Professional and contracted services	488,609	223,443	236,511	948,563	7,841
Insurance	9,663	13,924	517	24,104	8,877
Telephone and communications	3,839	-	-	3,839	-
Professional development	250	604	-	854	-
Utilities	29,825	-	-	29,825	16,765
Repair and maintenance	102	-	-	102	10,000
Building rent	3,500	3,500	-	7,000	-
Equipment rental	6,952	10,509	23,944	41,405	-
Miscellaneous	9,404	1,625	-	11,029	16
Depreciation	250,290	63,494	-	313,784	43,685
Total operating expenses	959,400	805,602	315,955	2,080,957	222,052
Operating income (loss)	(17,136)	(22,716)	20,330	(19,522)	(69,087)
Nonoperating revenues (expenses)					
Interest earnings	1,982	-	-	1,982	-
Principal payment	-	(1,000)	-	(1,000)	-
Interest expense	(239,615)	(87,004)	-	(326,619)	-
Net nonoperating revenues (expenses)	(237,633)	(88,004)	-	(325,637)	-
Income (loss) before transfers	(254,769)	(110,720)	20,330	(345,159)	(69,087)
Transfers					
Transfers in	275,000	-	-	275,000	-
Transfers out	-	-	-	-	-
Total transfers	275,000	-	-	275,000	-
Changes in net position	20,231	(110,720)	20,330	(70,159)	(69,087)
Total net position-beginning	15,755	657,270	57,642	730,667	528,975
Prior period adjustment	50,802	38,326	12,141	101,269	-
Total net position-beginning, as adjusted	66,557	695,596	69,783	831,936	528,975
Total net position-ending	\$ 86,788	\$ 584,876	\$ 90,113	\$ 761,777	\$ 459,888

See accompanying notes.

City of Essexville

Reconciliation of the Statement of Revenues, Expenses, and Changes in Net Position of
Enterprise Funds to the Statement of Activities

Year Ended June 30, 2018

Net change in net position - total enterprise funds \$ (70,159)

The change in net position reported for business-type activities in the statement of activities is different because:

The internal service funds are used by the City to charge the costs of operating mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within business-type activities.

11,371

Change in net position of business-type activities \$ (58,788)

City of Essexville

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2018

	Proprietary Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Rubbish and Trash Fund		
Cash flows from operating activities					
Receipts from customers	\$ 878,846	\$ 736,576	\$ 321,858	\$ 1,937,280	\$ 147,400
Payments to suppliers	(417,454)	(402,997)	(264,728)	(1,085,179)	(99,494)
Payments to employees	(149,162)	(479,077)	(54,983)	(683,222)	(75,520)
Net cash from operating activities	312,230	(145,498)	2,147	168,879	(27,614)
Cash flows from noncapital financing activities					
Transfers in	275,000	-	-	275,000	-
Transfers out	-	-	-	-	-
Other revenue	-	-	-	-	5,565
Net cash from noncapital financing activities	275,000	-	-	275,000	5,565
Cash flows from capital and related financing activities					
Purchases and construction of capital assets	-	(3,794,092)	-	(3,794,092)	-
Capital contributions	-	-	-	-	-
Proceeds from issuance of capital debt	-	3,794,092	-	3,794,092	-
Principal paid on capital debt	(185,000)	(1,000)	-	(186,000)	-
Interest paid on capital debt	(239,615)	(87,004)	-	(326,619)	-
Net cash from capital and related financing activities	(424,615)	(88,004)	-	(512,619)	-
Cash flows from investing activities					
Purchases of investments	-	-	-	-	-
Proceeds from the sale of investments	-	-	-	-	-
Interest earnings	1,982	-	-	1,982	-
Net cash from investing activities	1,982	-	-	1,982	-
Net change in cash and cash equivalents	164,597	(233,502)	2,147	(66,758)	(22,049)
Balances-beginning of year	379,322	533,571	51,675	964,568	9,727
Balances-end of year	\$ 543,919	\$ 300,069	\$ 53,822	\$ 897,810	\$ (12,322)
Displayed as:					
Cash and cash equivalents	\$ 115,997	\$ 219,671	\$ 53,822	\$ 389,490	\$ (17,887)
Restricted cash and cash equivalents	427,922	80,398	-	508,320	-
	\$ 543,919	\$ 300,069	\$ 53,822	\$ 897,810	\$ (17,887)
Reconciliation of operating income (loss) to net cash from operating activities:					
Operating income (loss)	\$ (17,136)	\$ (22,716)	\$ 20,330	\$ (19,522)	\$ (69,087)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation expense	250,290	63,494	-	313,784	43,685
Change in assets and liabilities:					
Accounts receivable and assessments, net	(63,418)	(46,310)	(14,427)	(124,155)	-
Accounts payable	92,526	(178,150)	(15,898)	(101,522)	(2,212)
Accrued expenses	(675)	-	-	(675)	-
Deposits and other liabilities	(159)	(142)	-	(301)	-
Prior period adjustments to fund balance	50,802	38,326	12,142	101,270	-
Net cash from operating activities	\$ 312,230	\$ (145,498)	\$ 2,147	\$ 168,879	\$ (27,614)

See accompanying notes.

City of Essexville

Fiduciary Funds - Agency Funds
Statement of Net Position

June 30, 2018

	Fringe Benefit Agency Fund	Current Tax Collection Fund	Total
Assets			
Cash and cash equivalents	\$ 32,253	\$ 7,863	\$ 40,116
Total assets	<u>\$ 32,253</u>	<u>\$ 7,863</u>	<u>\$ 40,116</u>
Liabilities			
Due to other governmental units	\$ -	\$ 7,863	\$ 7,863
Total liabilities	<u>-</u>	<u>7,863</u>	<u>7,863</u>
Net Position			
Held in trust for benefits	<u>\$ 32,253</u>	<u>\$ -</u>	<u>\$ 32,253</u>

City of Essexville

Fiduciary Fund - Fringe Benefit Fund
Statement of Changes in Net Position

June 30, 2018

	Fringe Benefit Agency Fund
Additions	
Employer contributions	\$ -
Investment income	-
Total additions	<u>-</u>
Deductions	
Decrease in available employee benefits	<u>(29,307)</u>
Total deductions	<u>(29,307)</u>
Change in net position	(29,307)
Net position-beginning	61,560
Net position-end	<u><u>\$ 32,253</u></u>

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies

The accounting policies of the City of Essexville (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City.

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

The City is located in Bay County and is governed by an elected City Council (6 members) and an elected Mayor. The City provides services to its various residents in many areas, including general government, public safety, public works, community development, recreation and culture, sewer and water utilities, and rubbish collection services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. The City has no discretely presented component units.

Blended component unit. 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. The City of Essexville has blended its Downtown Development Authority into the financial statements. The Downtown Development Authority is appointed to preside over this specific district, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization, and historic preservation within this area. Members of the board are approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and other charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Enterprise funds are used to account for operations:

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

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements (continued)

The City reports the following major governmental funds:

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

The **Major Streets 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.

The **Local Streets 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.

The **Debt Service Fund** is used to accumulate tax revenues for purposes of making interest and principal payments on General Obligation bonds.

The **Downtown Development Authority Fund (DDA)** 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 millage increases.

The City reports the following major proprietary funds:

The **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.

The **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.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements (continued)

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

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for major equipment and vehicle purchases and maintenance provided to other departments of the City on a cost-reimbursement basis.

Fiduciary 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. The City reports the following fiduciary funds:

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.

The *Tax Collection Fund* is an agency fund to account for collection of property taxes by the City on behalf of other local governmental units.

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

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

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

E. Change in Accounting Principle – Adoption of New Accounting Pronouncement

The Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* (GASB 75). The new standard, which the City adopted for the year ended June 30, 2018, requires a change in the way the City reports its post-employment obligation (OPEB). Under the previous requirement (GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*), only a portion of the obligation was reported. Under the new standard, the liability includes the full portion of City's net unfunded OPEB to more comprehensively and comparably measure the annual costs of other post-employment benefits. In accordance with the standard, the City has reported a net change in its OPEB liability of \$3,347,903 as a cumulative effect of a change in accounting principle adjustment to unrestricted net position as of July 1, 2017 as detailed below.

	Governmental Activities
Beginning of year, as previously reported Net Position	\$ 1,715,996
Net OPEB obligation (old standard)	410,315
Net OPEB liability (new standard)	(3,758,218)
Beginning of year, as restated Net Position	<u>\$ (1,631,907)</u>

In accordance with GASB 75, the restatement of all deferred outflows and inflows was not practical and therefore not included in the restatement of beginning balances.

F. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the net pension obligation.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

G. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

H. Budgetary Information

Budgets and Budgetary Accounting—The City follows the following 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 budget appropriations lapse at fiscal year-end.

Excess of expenditures over appropriations—During the year, the City incurred expenditures which were in excess of the amounts appropriated, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government:			
Administration	\$63,628	\$66,809	\$ 3,181
Accounting and auditing	4,500	24,111	19,611
City hall	54,774	59,490	4,716
Public safety:			
Fire department	57,992	63,256	5,264
Other functions			
Pensions	78,952	160,526	(81,574)
Capital outlay			
Public safety	-	-	(414,361)

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

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

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

Receivables and Payables – All trade and property tax receivables are shown net of allowance for uncollectible amounts.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Restricted Cash – The City's 2010 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 on the bonds require \$33,200 to be deposited into the account each June 30th until there is an accumulated sum of \$384,000. Total funds in the bond reserve account at June 30, 2018 are \$273,519. These funds are restricted to be used for future debt payments.

The repair and replacement account required an initial deposit of \$100,000 into the sewer fund. Each June 30th, the amount of \$33,333 is to be deposited into the repair and replacement account until the sum of \$384,000 has been deposited in the bond reserve account, after which the amount of \$65,533 shall be deposited annually in the repair and replacement account until the bonds are paid in full. Total funds in the repair and replacement account at June 30, 2018 totaled \$154,403. These funds are restricted to be used 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.

At June 30, 2018, the Water Fund has restricted cash totaling \$80,398 consisting of a construction cash account of \$73,731 and a reserve cash account of \$6,667.

Capital Assets – Capital assets (which include property, plant, equipment, and infrastructure assets) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

I. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Interest incurred, if any, during the construction of capital assets of business-type activities has not been included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	10 to 20 years
Infrastructure	20 to 40 years
Buildings and additions	25 to 40 years
Sewer and water systems	25 to 40 years
Vehicles	5 to 10 years
Furniture and other equipment	5 to 10 years

Deferred outflows/inflows of resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows of resources consist of net outflows related to the City’s net pension liability and totaled \$213,746 as of June 30, 2018. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members. Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences—The City grants paid time off (PTO) to its employees based on the employee’s length of service. The policy permits personnel to elect to receive a payout of accrued PTO up to 80 hours in the first pay period of December or the first pay period of the following January if required by a provisions of a collective bargaining agreement.

At the end of each calendar year, employees may carry over up to 80 hours of PTO to the subsequent calendar year. Employees must use the PTO no later than June 30 of the current year. Labor contracts may specify this carryover differently and supersede the Personnel Policy.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

I. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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, 2018 is included in the Fringe Benefit Fund.

Pensions—For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Municipal Employees Retirement System (MERS) and additions to/deductions from MERS fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits—For purposes of measuring net other post-employment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, the City obtains an actuarial valuation as of a date no more than 30 months and 1 day earlier than the City's most recent fiscal year-end. Since fewer than 100 employees (active and inactive) are provided with benefits under the City's OPEB plan, the City is permitted to apply an alternative measurement method of measuring its total OPEB liability for measurement periods in which it is not required to obtain an actuarial valuation.

Long-Term Obligations—In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported inclusive of the applicable bond premium or net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

I. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Net Position Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds or donations) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The City's policy is that when multiple classifications are available and appropriate for a specific purpose, fund balance will be used first from the most restrictive category in order to the least restrictive.

Fund Balance Policies—In the fund financial statements, fund balance is presented in five possible categories:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as creditors, grantors, and higher levels of government), through constitutional provisions, or by enabling legislations.

Committed – amounts which are subject to limitations the City imposes upon itself through official actions made by the City Commission, and that remain binding unless removed in the same manner.

Assigned – amounts neither restricted nor committed for which the City has a stated intended use as established by the City Commission or an official to which the City Commission has delegated the authority to assign amounts for specific purposes.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

City of Essexville

Notes to Financial Statements

June 30, 2018

1. Summary of Significant Accounting Policies (continued)

J. Revenues and Expenditures/Expenses

Program Revenues—Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 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.

The taxable valuation of City properties totaled \$72,740,833. Ad Valorem taxes levied on this valuation consisted of 12.500 mills for City operations; .9500 mills for trash collection; 1.0000 mills for the Downtown Development Authority; and 2.6931 mills for bond debt in water fund. In 2017, voters approved an additional 1.26 mills amount to be levied on December 31, 2018 to provide funding for repayment of the fire truck loan.

Proprietary Funds Operating and Nonoperating Revenues and Expenses—Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The Sewer and Water funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

K. Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

City of Essexville

Notes to Financial Statements

June 30, 2018

2. Deposits and Investments

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Deposits	Investments	Total
Financial statement caption:			
Cash and cash equivalents	\$ 759,980	\$ -	\$ 759,980
Investments		547,000	547,000
Restricted cash and cash equivalents	508,320	-	508,320
Fiduciary Funds:			
Cash and cash equivalents	40,116	-	40,116
	<u>\$ 1,308,416</u>	<u>\$ 547,000</u>	<u>\$ 1,855,416</u>

Michigan Compiled Laws, §129.91, authorizes local governmental units to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The 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.

As of June 30, 2018, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
Certificates of deposit	\$ 294,047	1 year
U.S. money market securities	153,852	<1 year
U.S. Home Loan Mortgage Corporation Medium Term 1.5% Notes	99,101	2-3 years
	<u>\$ 547,000</u>	

City of Essexville

Notes to Financial Statements

June 30, 2018

2. Deposits and Investments (continued)

Investment and Deposit Risk

Custodial Credit Risk – Deposits—Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$1,160,777 of the City's bank balances of \$1,411,627 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositors.

Custodial Credit Risk – Investments—For an investment, custodial credit risk is the 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. State law does not require a policy for investment custodial credit risk. 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.

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 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 years from the purchase date.

Credit Risk—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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.

City of Essexville

Notes to Financial Statements

June 30, 2018

3. Capital Assets

Capital asset activity of the primary government for the current period was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 819,931	\$ -	\$ -	\$ 819,931
Construction in progress		-	-	-
Total capital assets not being depreciated	819,931	-	-	819,931
Capital assets being depreciated:				
Infrastructure	1,748,513	-	-	1,748,513
Buildings and improvements	1,158,519	-	-	1,158,519
Vehicles, furniture and equipment	1,421,838	422,792	(239,616)	1,605,014
Total capital assets being depreciated	4,328,870	422,792	(239,616)	4,512,047
Less accumulated depreciation:				
Infrastructure	(287,549)	(44,496)	-	(332,045)
Buildings and improvements	(366,510)	(29,830)	-	(396,340)
Vehicles, furniture and equipment	(1,265,872)	(49,459)	239,616	(1,075,715)
Total accumulated depreciation	(1,919,931)	(123,785)	239,616	(1,804,100)
Total capital assets being depreciated, net	2,408,939	299,007	-	2,707,947
Governmental activities capital assets, net	\$ 3,228,870	\$ 299,007	\$ -	\$ 3,527,877

City of Essexville

Notes to Financial Statements

June 30, 2018

3. Capital Assets (continued)

Business-type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Buildings and improvements	-			
Water and sewer distribution systems	10,464,411	3,794,092	-	14,258,503
Furniture and equipment	552,973	-	(44,340)	508,633
Total capital assets being depreciated	11,017,384	3,794,092	(44,340)	14,767,136
Less accumulated depreciation:				
Buildings and improvements	-	-	-	-
Water and sewer distribution systems	(1,641,467)	(281,417)	-	(1,922,884)
Furniture and equipment	(235,059)	(32,367)	44,340	(223,086)
Total accumulated depreciation	(1,876,526)	(313,784)	44,340	(2,145,970)
Total capital assets being depreciated, net	9,140,858	3,480,308	-	12,621,166
Business-type activities capital assets, net	\$ 9,140,858	\$ 3,480,308	\$ -	\$ 12,621,166

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General government	\$ 28,397
Public safety	7,207
Public works	44,496
Internal Service Fund depreciation	43,685
	<u>\$ 123,785</u>
Business-Type Activities	
Sewer	\$ 250,290
Water	63,494
	<u>\$ 313,784</u>

City of Essexville

Notes to Financial Statements

June 30, 2018

3. Capital Assets (continued)

Construction Commitments

The City's active construction projects as of June 30, 2018 included the following contractor commitments:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2017 Water Project	<u>\$ 5,443,067</u>	<u>\$ 319,105</u>

This construction project was funded by a U.S. Department of Agriculture (USDA) loan commitment of \$5,762,172 funded through the General Obligation Unlimited Tax Bonds, Series 2017 which are described in Note 5.

4. Interfund Receivables, Payables, and Transfers

As of June 30, 2018, there were no interfund receivables or payables other than the General Fund's receivable of \$7,863 from the Tax Collection Fund. The composition of interfund transfers out and in is as follows:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	<u>\$275,000</u>	Sewer Fund	<u>\$275,000</u>

Transfers represent unrestricted revenues used to finance programs that the City must account for in specific funds in accordance with budgetary authorizations, amounts provided as subsidies, or matching funds for specific grant programs.

5. Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties which are repaid from amounts levied against those properties that directly benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Essexville

Notes to Financial Statements

June 30, 2018

5. Long-Term Debt (continued)

Bond and contractual agreements can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Fire Truck municipal lease purchase due 8/1/2022	\$ -	\$ 414,361	\$ -	\$ 414,361	\$ 80,524
	<u>\$ -</u>	<u>\$ 414,361</u>	<u>\$ -</u>	<u>\$ 414,361</u>	<u>\$ 80,524</u>
Business-Type Activities					
Sewer Fund					
SRF loan payable, due 2018, 2.25% interest	\$ 120,000	\$ -	\$ (120,000)	\$ -	\$ -
Sewage system revenue bonds, due 2051, 2.5% interest	7,352,000	-	(65,000)	7,287,000	70,000
	<u>7,472,000</u>	<u>-</u>	<u>(185,000)</u>	<u>7,287,000</u>	<u>70,000</u>
Water Fund					
General Obligation Unlimited Tax Bonds, Series 2017, due 2056, 2.75% interest	1,649,000	3,794,092	-	5,443,092	85,000
	<u>\$ 9,121,000</u>	<u>\$ 3,794,092</u>	<u>\$ (185,000)</u>	<u>\$ 12,730,092</u>	<u>\$ 155,000</u>

City of Essexville

Notes to Financial Statements

June 30, 2018

5. Long-Term Debt (continued)

Annual debt service requirements to maturity for these obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 80,524	\$ 8,589	\$ 85,000	\$ 394,568
2020	80,185	8,928	115,000	391,880
2021	82,329	6,784	140,000	388,318
2022	84,531	4,582	150,000	384,018
2023	86,792	2,321	180,000	379,394
2024-2028	-	-	1,075,000	1,808,016
2029-2033	-	-	1,420,000	1,621,378
2034-2038	-	-	1,845,000	1,379,102
2039-2043	-	-	2,425,000	1,053,116
2044-2048	-	-	3,150,000	647,026
2049-2053	-	-	1,652,000	224,268
2054-2056	-	-	493,092	43,534
	<u>\$414,361</u>	<u>\$ 31,204</u>	<u>\$12,730,092</u>	<u>\$8,714,618</u>

6. Segment Information—Enterprise Funds

The City issued revenue bonds to finance certain improvements to its sewer and water systems. Because the Sewer and Water Funds are individual major funds that account entirely for the City’s sewage treatment activities and water distribution, segment disclosures herein are not required.

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.

The City participates, with other local units of government, in the Michigan Municipal Liability and Property Pool (MML) which is a public entity risk (insurance) pool. This self-insurance plan provides members with loss protection for workers’ compensation, property damage, and general liability.

City of Essexville

Notes to Financial Statements

June 30, 2018

7. Risk Management (continued)

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.

With respect to the City's participation in MML, when a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the plan are available.

8. Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided. Benefits provided include plans with multipliers of 2.50%. Vesting periods range from 6 to 10 years. Normal retirement age is 60 with early retirement at 55 with 25 years of service for unreduced benefits. Early retirement is available at 50 with 25 years of service and at 55 with 15 years of service, but the benefits are reduced. Final average compensation is calculated based between 3 and 5 years. Member contributions range from 3.00% to 5.00%.

City of Essexville

Notes to Financial Statements

June 30, 2018

8. Defined Benefit Pension Plan (continued)

Employees covered by benefit terms. As of the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>17</u>
	<u>45</u>

Contributions. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may establish contribution rates to be paid by its covered employees.

Employer contributions range from 13.98% to 37.70% based on annual payroll for open divisions. Three divisions that are closed to new employees have an annual contribution amount of approximately \$90,000.

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.00% in the long-term
- Investment rate of return: 7.75%, net of investment expense, including inflation.
- Although no explicit price inflation assumption is needed for this valuation, the 2.5% wage inflation assumption would be consistent with a price inflation of 3% - 4%.
- Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend
- The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013

City of Essexville

Notes to Financial Statements

June 30, 2018

8. Defined Benefit Pension Plan (continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.50%	5.02%
Global Fixed Income	20.00%	2.18%
Real Assets	12.50%	4.23%
Diversifying Strategies	10.00%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8% for 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Essexville

Notes to Financial Statements

June 30, 2018

8. Defined Benefit Pension Plan (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at December 31, 2016	\$6,820,262	\$4,499,711	\$2,320,551
Changes for the year			
Service Cost	96,843	-	96,843
Interest on total pension liability	528,830	-	528,830
Changes in benefit terms	(1,227)	-	(1,227)
Difference between expected and actual experience	(164,262)	-	(164,262)
Changes in assumptions	-	-	-
Employer contributions	-	244,309	(244,309)
Employee contributions	-	43,219	(43,219)
Net investment income	-	583,405	(583,405)
Benefit payments, including employee refunds	(516,624)	(516,624)	-
Administrative expense	-	(9,254)	9,254
Other changes	(1)	(1)	-
Net changes	(56,441)	345,054	(401,495)
Balances as of December 31, 2017	<u>\$6,763,821</u>	<u>\$4,844,765</u>	<u>\$1,919,056</u>

City of Essexville

Notes to Financial Statements

June 30, 2018

8. Defined Benefit Pension Plan (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (7.0%) or 1% higher (9.0%) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability	<u>\$2,601,980</u>	<u>\$1,919,056</u>	<u>\$1,340,070</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018 the employer recognized pension expense of \$212,447. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 310,674
Differences in assumptions	76,399	-
Excess (Deficit) Investment Returns	-	83,091
Contributions subsequent to the measurement date*	<u>137,347</u>	<u>-</u>
Total	<u>\$ 213,746</u>	<u>\$ 393,765</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2018.

City of Essexville

Notes to Financial Statements

June 30, 2018

8. Defined Benefit Pension Plan (continued)

Amounts reported as deferred outflows and inflows of resources related to pensions, excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended June 30	
2018	\$ (27,591)
2019	(126,881)
2020	(116,302)
2021	(46,592)
	<u>\$(317,366)</u>

Funding Policy – The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 26 years.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

9. Other Post-Employment Benefit Plan (OPEB)

Plan Description

Plan Administration

The City of Essexville administers a single employer defined benefit post-employment health insurance plan (OPEB plan). The OPEB Plan does not include pension benefits described in Note 8. Management of the plan is vested with the elected City Council. As of June 30, 2018, the OPEB plan has not been advance funded nor has a separate trust been established for funding. The City plans to establish a trust during the year ending June 30, 2019 for the purpose of increasing the funded status of the OPEB plan.

City of Essexville

Notes to Financial Statements

June 30, 2018

9. Other Post-Employment Benefit Plan (OPEB)(continued)

Plan Description(continued)

Plan Membership

As of December 31, 2017, the OPEB plan consisted of:

Retires and survivors	14
Active plan member	<u>6</u>
Total	<u><u>20</u></u>

Benefits Provided

The OPEB plan provides medical insurance for eligible retirees and their dependents through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established and amended by the union contracts throughout negotiations between the City and the respective unions or as established by the City for non-union employees. The OPEB plan provides the following benefits based on employee group upon retirement.

Contributions

The OPEB plan was established and is being funded under the authority of the City. The OPEB plan’s funding policy is that the City will begin to contribute annual amounts to an OPEB trust fund starting in 2019 and discretionary amounts if able in subsequent years. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, the plan may be financed on a “pay-as-you-go” basis). There are no long-term contracts for contributions to the plan. The OPEB plan has no legally required reserves. For the year-ended June 30, 2018 the City contributed \$161,996 for insurance premiums while OPEB plan participants are not required to make OPEB contributions.

Summary of Significant Accounting Policies

Basis of Accounting – The City has not yet established a healthcare trust fund. Upon establishment of a trust fund, the City will use the accrual basis of accounting. Employer contributions will be recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds will be recognized when due and payable in accordance with the terms of the plan.

City of Essexville

Notes to Financial Statements

June 30, 2018

9. Other Post-Employment Benefit Plan (OPEB)(continued)

OPEB Plan Investments

Investment Policy – The City Treasurer may invest funds held in the Retiree Healthcare Trust Fund at his/her discretion including common or preferred stocks, bonds, certificates of deposit, interest or participation, mutual funds, and other forms of security investments.

Rate of Return – This did not apply to the City’s OPEB plan for the year ended June 30, 2018 since the City has not yet established a trust for the accumulation of investments.

Net OPEB Liability of the City

The components of the net OPEB liability of the City as of June 30, 2018, were as follows:

Total OPEB liability	\$3,758,216
OPEB plan fiduciary net position	-
Net OPEB liability	<u>\$3,758,216</u>
Plan fiduciary net position as a percentage of the Total OPEB liability	0.00%

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of December 31, 2016. The following actuarial assumptions applied to all periods in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age Normal (level percent)
Salary Increases	Not applicable
Inflation	3.00%
Discount Rate	3.31% for December 31, 2017 liability and 2019 contribution
Investment Rate of Return	N/A for December 31, 2017 liability
Healthcare Cost Trend Rates – pre-65	8.00% per year graded down to an ultimate rate of 5.00% over 6 years
Healthcare Cost Trend Rates – post-65	5.00% in all years
Mortality	RPH-2014 adjusted to 2006 projected with MP-2016 improvement scale

City of Essexville

Notes to Financial Statements

June 30, 2018

9. Other Post-Employment Benefit Plan (OPEB)(continued)

OPEB Plan Investments

Discount Rate – The discount rate used to measure the total OPEB liability was 3.31%. Because the covered group is closed to new entrants and the City continues to make benefit payments on a pay-as-you-go basis, assets will theoretically not be depleted, and no cross-over point will occur so the average rate above is used for the discount rate. As long as benefits are paid from general operating funds, those benefits ought to be discounted at the municipal bond rate and a lower discount rate would result in a higher liability.

June 30, 2018 is the first year of required compliance with GASB 75, so there is no required discount rate change to disclose.

The total OPEB liability was updated to December 31, 2017 using the alternative measurement method.

Changes in the Net OPEB Liability			
	<u>Increase (Decrease)</u>		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances as of July 1, 2017	\$ 3,758,216	\$ -	\$ 3,758,216
Changes for the Year:			
Service cost	62,451	-	62,451
Interest on the total OPEB liability	123,147	-	123,147
Changes in benefits	-	-	-
Difference between expected and actual experience	(47,646)	-	(47,646)
Changes in assumptions	-	-	-
Employer contributions to OPEB Trust	-	-	-
Contributions paid from general operating funds	-	-	-
Net investment income	-	-	-
Benefit payments, including employee refunds	(137,952)	-	(137,952)
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	-	-	-
Balances as of June 30, 2018	\$ 3,758,216	\$ -	\$ 3,758,216

City of Essexville

Notes to Financial Statements

June 30, 2018

9. Other Post-Employment Benefit Plan (OPEB)(continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate 1-percentage-point lower and 1-percentage-point higher than the current discount rate:

	1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
Net OPEB Liability	\$1,810,045	\$3,758,216	\$5,706,387

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a healthcare cost trend rates 1-percentage-point lower and 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (4.00%)	Current Healthcare Cost Trend Rates (5.00%)	1% Increase (6.00%)
Net OPEB Liability	\$3,275,963	\$3,758,216	\$4,420,401

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

For the year ended June 30, 2018, the City recognized OPEB expense as follows:

	OPEB Expense
Service cost	\$ 62,451
Interest on the total OPEB liability	123,147
Experience (gains) / losses	-
Changes in assumptions	-
Employee contributions	-
Projected earnings on OPEB investments	-
Investment earnings (gains)/losses	-
Administrative expense	-
Other changes	(23,602)
Total OPEB expense	<u>\$ 161,996</u>

City of Essexville

Notes to Financial Statements

June 30, 2018

9. Other Post-Employment Benefit Plan (OPEB)(continued)

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

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

<u>Year ended June 30</u>	
2019	\$ -
2020	-
2021	-
2022	-

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, 2018 and 2017, the City did not contribute to the Plan. Retirees receiving benefits made no contributions to the Plan, as none were required.

10. Connection to Bay County Treatment Plant

During 2010, the City entered into an agreement with Bay County Department of Water and Sewer for sewer treatment services. The City paid a one-time connection fee to the County Wastewater Treatment Plant and paid a percentage of costs for upgrading the sewage storage system at the West Bay County Regional Wastewater Treatment Plant. In addition, the City incurred cost of infrastructure by running pipes under the Saginaw River to connect to the treatment plant. All these costs were recorded in the Sewer fund as capital assets in the amount of \$7,989,144. The connection costs and construction were financed by Federal USDA revenue bonds and a USDA grant.

City of Essexville

Notes to Financial Statements

June 30, 2018

11. Investment in Bay Area Water Treatment Plant

In January of 2013, the City entered into an agreement with the City of Bay City and Bay County to construct a new Bay Area Water Treatment Plant. The City along with the other local governmental units agreed to share the cost of the plant based upon each unit's portion of total water usage. The plant will be held by Bay County on behalf of the local government units. When debt to finance the construction of the plant and system has been retired, title to the Plant will be transferred to the local governmental units based upon each unit's pro rata share of the total billed water consumption.

12. Tax Abatements

The City enters into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Act (Industrial Facilities Exemption) (P.A. 198 of 1974 as amended). Under the Act, localities may grant property tax abatements of up to 50 percent of a business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any local business located within or promising to relocate to the City. The property taxes abated under this program were \$2,196.

13. Contingencies

Grants

The City receives financial assistance from other governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

Legal Matters

In the normal course of its activities, the City is a party to various legal and administrative actions. The City is currently a party to an action brought by the City's former treasurer alleging wrongful termination. Although this action could involve a substantial amount, this action, which is covered under the City's insurance policy, is still in the discovery stage. After taking into consideration legal counsel's evaluation of this matter, the provisions of the City's insurance coverage, and information relative to potential future claims based on past events, City management is of the opinion that the resolution of these matters will not have a material effect, if any, on the City's financial statements.

City of Essexville

Notes to Financial Statements

June 30, 2018

14. Prior Period Adjustment

Beginning accounts receivable for the City’s proprietary funds did not fully include the full amount of services receivable as of the beginning of the year. Accordingly beginning unrestricted net position has been restated as detailed below.

	Sewer Fund	Water Fund	Rubbish and Trash Fund
Net position, beginning of year, as previously reported	\$ 15,755	\$ 657,270	\$ 57,642
Additional accounts receivable as of July 1, 2017	50,802	38,326	12,141
Net position, beginning of year, as restated	\$ 66,557	\$ 695,596	\$ 69,783

15. Upcoming Accounting Standards

Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, will be effective for the City’s June 30, 2020 financial statements. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on: (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Cities with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

GASB Statement No. 87, *Leases*, will be effective for fiscal years beginning after December 15, 2019. The objective of this standard is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The standard will require the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

City of Essexville

Notes to Financial Statements

June 30, 2018

15. Upcoming Accounting Standards (continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, is effective for reporting periods beginning after June 15, 2018 and increases a government's debt disclosures and applies to all debt. Some additional disclosures include unused lines of credit, collateral pledged as security, and terms specified in debt agreements related to significant 1) events of default with finance-related consequences, 2) significant termination events with finance-related consequences, and 3) significant subjective acceleration clauses.

City of Essexville

Required Supplementary Information
Defined Benefit Pension Plan (MERS)

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

	2017	2016	2015	2014
Total pension liability				
Service Cost	\$ 96,843	\$ 100,579	\$ 106,019	\$ 93,640
Interest	528,830	549,818	530,323	520,968
Changes of benefit terms	(1,227)	-	-	-
Difference between expected and actual experience	(164,262)	-	-	-
Changes of assumptions	-	-	-	-
Benefit payments including employee refunds	(516,624)	(529,323)	(509,508)	(507,398)
Other	(1)	(387,910)	331,416	-
Net change in total pension liability	(56,441)	(266,836)	458,250	107,210
Total pension liability, beginning	6,820,262	7,087,098	6,628,848	6,521,638
Total pension liability, ending	\$ 6,763,821	\$ 6,820,262	\$ 7,087,098	\$ 6,628,848
Plan fiduciary net position				
Contributions-employer	\$ 244,309	\$ 260,893	\$ 251,433	\$ 206,566
Contributions-employee	43,219	44,097	44,236	38,911
Net Investment income	583,405	474,009	(65,927)	281,242
Benefit payments including employee refunds	(516,624)	(529,323)	(509,508)	(507,398)
Administrative expense and other changes	(9,255)	(9,366)	(9,770)	(10,276)
Net change in plan fiduciary net position	345,054	240,310	(289,536)	9,045
Plan fiduciary net position, beginning	4,499,711	4,259,401	4,548,937	4,539,892
Plan fiduciary net position, ending	\$ 4,844,765	\$ 4,499,711	\$ 4,259,401	\$ 4,548,937
Employer net pension liability	\$ 1,919,056	\$ 2,320,551	\$ 2,827,697	\$ 2,079,911
Plan fiduciary net position as a percentage of the total pension liability	71.6%	66.0%	60.1%	68.6%
Covered employee payroll	\$ 865,467	\$ 877,950	\$ 938,908	\$ 827,744
Employer's net pension liability as a percentage of covered employee payroll	221.7%	264.3%	301.2%	251.3%

Notes to schedule:

Benefit changes: There were no changes in benefits during the periods presented.

Changes in assumptions:

For 2017: 1) The assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75%. 2) The asset smoothing period was changed from 10 years to 5 years, effective in 2016. There were no changes in actuarial assumptions or methods for 2017.

The information above is based on the December 31 valuation date.

Note: GASB Statement No. 68 was implemented for the fiscal year ended June 30, 2015 and does not require retroactive implementation.

Data will be added as information is available until 10 years of such data is available. The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

City of Essexville

Required Supplementary Information
 Defined Benefit Pension Plan (MERS)
 Schedule of Employer's Contributions

	2017	2016	2015	2014	2013	2012	2011
Actuarial determined contributions	\$ 244,309	\$ 260,893	\$ 251,433	\$ 206,566	\$ 158,645	\$ 128,366	\$ 127,339
Contributions in relation to the actuarially determined contribution	244,309	260,893	251,433	206,566	158,645	128,366	127,339
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 865,467	\$ 877,950	\$ 938,908	\$ 827,744	\$ 1,164,366	\$ 1,252,982	\$ 1,214,372
Contributions as a percentage of covered employee payroll	28%	30%	27%	25%	14%	10%	10%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	10 year smoothed
Inflation	3-4%
Salary Increases	3.00%
Investment rate of return	7.75%
Retirement age	60
Mortality	50% Female/50% Male RP-2014 Group Annuity Mortality Table

Above dates are based on the actuarial measurement date.

City of Essexville

Schedule of Changes in Net OPEB Liability and Related Ratios
 Last Ten Fiscal Years (schedule is built prospectively upon implementation of GASB 75)

Year Ended June 30, 2018

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 62,451
Interest	123,147
Changes in benefits	-
Difference between expected and actual experience	(47,646)
Changes in assumptions	-
Benefit payments including refunds	(137,952)
Net change in total pension liability	-
Total pension liability at beginning of year	3,758,216
Total pension liability at end of year	<u>\$ 3,758,216</u>
 Plan fiduciary net position	
Contributions to OPEB trust	-
Contributions/benefit payments made from general operating funds	137,952
Net investment income	-
Benefit payments including refunds	(137,952)
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position at beginning of year	-
Plan fiduciary net position at end of year	<u>\$ -</u>
 City's net OPEB liability at end of year	<u>\$ 3,758,216</u>
 Plan fiduciary net position as a percentage of the total pension liability	0.00%
 Covered employee payroll	Not Avail.
 Employer's net pension liability as a percentage of covered employee payroll	Not Avail.

City of Essexville

Schedule of Changes in Net Schedule of OPEB Contributions
Last Ten Fiscal Years (schedule is built prospectively upon implementation of GASB 75)

Year Ended June 30, 2018
2018

Service cost	\$ 62,451
Amortization of unfunded liability	99,545
Actuarially determined employer contribution	<u>161,996</u>
Contributions in relation to the actuarially determined contribution	<u>161,996</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	Not Avail.
Contributions as a percentage of covered employee payroll	Not Avail.

Notes to schedule

Actuarial valuation information relative to the determination of contributions:

Valuation date	December 31, 2016
Actuarial determined contribution	Equals amount obligated to pay in 2017-18 year since a separate actuarial valuation was not obtained.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of compensation
Remaining amortization period	8 years
Asset valuation method	n/a
Inflation	3.00%
Salary increases	3.00% including inflation
Investment rate of return	5.63%
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	2018 IRS 1.430(h) Annuitant and Non-annuitant (sex distinct) tables

City of Essexville

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 937,999	\$ 937,999	\$ 940,184	\$ 2,185
Licenses and permits	73,000	73,000	80,813	7,813
Federal revenue	-	-	1,790	1,790
State revenue	561,384	561,384	370,278	(191,106)
Charges for services	100	100	271	171
Interest earnings	6,210	6,210	4,777	(1,433)
Fines and forfeitures	10,800	10,800	9,156	(1,644)
Donations	2,000	2,000	80,550	78,550
Miscellaneous	5,500	5,500	1,859	(3,641)
Total revenues	1,596,993	1,596,993	1,489,678	(107,315)
Expenditures				
General government:				
Legislative - City Council	14,708	14,708	12,757	1,951
Administration	63,628	63,628	66,809	(3,181)
Elections	12,200	12,200	7,777	4,423
Assessor	29,269	29,269	27,517	1,752
City attorney	30,000	30,000	15,653	14,347
Board of review	1,419	1,419	995	424
Clerk	58,855	58,855	53,439	5,416
Treasurer	27,646	27,646	26,825	821
Accounting and auditing	4,500	4,500	24,111	(19,611)
Forestry	18,955	18,955	3,640	15,315
City hall	54,774	54,774	59,490	(4,716)
Public safety:				
Fire department	57,992	57,992	63,256	(5,264)
Police department	583,327	583,327	555,274	28,053
Inspections	27,014	27,014	24,104	2,910
Public works:				
Street lighting	53,500	53,500	49,187	4,313
Department of public works	20,380	20,380	15,994	4,386
Parks and recreation	26,349	26,349	22,903	3,446
Community development:				
Planning	600	600	20	580
Zoning	5,620	5,620	4,364	1,256

City of Essexville

Budgetary Comparison Schedule - General Fund (continued)

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Other functions:				
Fringe benefits	\$ 249,349	\$ 249,349	\$ 205,878	\$ 43,471
Pension	78,952	78,952	160,526	(81,574)
Capital outlay:				
General government	9,000	9,000	1,104	7,896
Public safety	-	-	414,361	(414,361)
Public works	-	-	-	-
Recreation and culture	10,000	10,000	-	10,000
Total expenditures	<u>1,438,037</u>	<u>1,438,037</u>	<u>1,815,984</u>	<u>(377,947)</u>
Excess (deficiency) of revenues over expenditures	158,956	158,956	(326,306)	(485,262)
Other financing sources (uses)				
Issuance of long-term debt	-	-	414,361	414,361
Transfers in	-	-	-	-
Transfers out	(94,718)	(94,718)	(275,000)	(180,282)
Total other financing sources (uses)	<u>(94,718)</u>	<u>(94,718)</u>	<u>139,361</u>	<u>234,079</u>
Net change in fund balances	64,238	64,238	(186,945)	(251,183)
Fund balances-beginning	916,849	916,849	916,849	-
Fund balances-ending	<u>\$ 981,087</u>	<u>\$ 981,087</u>	<u>\$ 729,904</u>	<u>\$ (251,183)</u>

City of Essexville

Budgetary Comparison Schedule - Major Streets Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State revenue	\$ 242,242	\$ 242,242	\$ 256,407	\$ 14,165
Interest earnings	100	100	-	(100)
Other	14,000	14,000	-	(14,000)
Total revenues	256,342	256,342	256,407	65
Expenditures				
Public works:				
Wages	44,226	44,226	38,743	5,483
Payroll taxes	3,384	3,384	2,856	528
Fringe benefits	23,623	23,623	18,580	5,043
Retirement	9,250	9,250	6,937	2,313
Operating supplies	24,100	24,100	8,910	15,190
Professional and contractual services	13,730	13,730	3,511	10,219
Equipment rental	44,000	43,500	41,765	1,735
Miscellaneous	1,500	1,500	-	1,500
Total expenditures	163,813	163,313	121,302	42,011
Excess (deficiency) of revenues over expenditures	92,529	93,029	135,105	42,076
Other financing sources (uses)				
Transfers in	20,000	20,000	-	(20,000)
Transfers out	(31,486)	(31,486)	-	31,486
Total other financing sources (uses)	(11,486)	(11,486)	-	11,486
Net change in fund balance	81,043	81,543	135,105	53,562
Fund balance-beginning	41,172	41,172	41,172	-
Fund balance-ending	\$ 122,215	\$ 122,715	\$ 176,277	\$ 53,562

City of Essexville

Budgetary Comparison Schedule - Local Streets Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State revenue	\$ 87,871	\$ 87,871	\$ 118,340	\$ 30,469
Miscellaneous	10,000	10,000	341	(9,659)
Total revenues	97,871	97,871	118,681	20,810
Expenditures				
Public works:				
Wages	43,713	43,713	24,772	18,941
Payroll taxes	3,345	3,345	1,810	1,535
Fringe benefits	24,403	24,403	20,451	3,952
Retirement	8,618	8,618	6,527	2,091
Operating supplies	14,500	14,500	4,685	9,815
Professional and contractual services	3,631	3,231	2,804	427
Equipment rental	37,500	37,500	31,719	5,781
Miscellaneous	1,000	1,000	-	1,000
Capital outlay	15,000	15,000	-	15,000
Total expenditures	151,710	151,310	92,768	58,542
Excess (deficiency) of revenues over expenditures	(53,839)	(53,439)	25,913	79,352
Other financing sources (uses)				
Transfers in	105,000	105,000	-	(105,000)
Transfers out	(1,496)	(1,496)	-	1,496
Total other financing sources (uses)	103,504	103,504	-	(103,504)
Net change in fund balance	49,665	50,065	25,913	(24,152)
Fund balance-beginning	735	735	735	-
Fund balance-ending	\$ 50,400	\$ 50,800	\$ 26,648	\$ (24,152)

City of Essexville

Budgetary Comparison Schedule - Debt Service Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 191,958	\$ 191,958	\$ -	\$ (191,958)
Total revenues	191,958	191,958	-	(191,958)
Expenditures				
Debt service:				
Principal	1,000	1,000	-	1,000
Interest and fiscal charges	158,442	158,442	-	158,442
Total expenditures	159,442	159,442	-	159,442
Excess (deficiency) of revenues over expenditures	32,516	32,516	-	(32,516)
Net change in fund balance	32,516	32,516	-	(32,516)
Fund balance-beginning	-	-	-	-
Fund balance-ending	\$ 32,516	\$ 32,516	\$ -	\$ (32,516)

City of Essexville

Budgetary Comparison Schedule - DDA

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 49,492	\$ 49,492	\$ 30,153	\$ (19,339)
State revenue	-	-	33,351	33,351
Interest earnings	850	850	567	(283)
Miscellaneous	100	100	-	(100)
Total revenues	50,442	50,442	64,071	13,629
Expenditures				
Public works:				
Wages	9,258	9,258	11,321	(2,063)
Payroll taxes	707	707	856	(149)
Fringe benefits	-	-	-	-
Retirement	2,500	2,500	3,239	(739)
Operating supplies	100	100	-	100
Insurance	250	250	193	57
Equipment rental	2,500	2,500	3,329	(829)
Professional and contractual services	4,250	4,250	1,297	2,953
Miscellaneous	5,600	5,600	3,987	1,613
Capital Outlay	11,500	11,500	78	11,422
Total expenditures	36,665	36,665	24,300	12,365
Excess (deficiency) of revenues over expenditures	13,777	13,777	39,771	25,994
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(45,000)	(45,000)	-	45,000
Total other financing sources (uses)	(45,000)	(45,000)	-	45,000
Net change in fund balances	(31,223)	(31,223)	39,771	70,994
Fund balances-beginning	62,582	62,582	62,582	-
Fund balances-ending	\$ 31,359	\$ 31,359	\$ 102,353	\$ 70,994

City of Essexville

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2018

	<u>Special Revenue</u>
	<u>Justice</u>
	<u>Training</u>
	<u>Fund</u>
Assets	
Cash and cash equivalents	\$ 8,851
Total assets	<u>\$ 8,851</u>
Liabilities, deferred inflows of resources, and fund balances	
Liabilities:	
Accounts payable	\$ 100
Total liabilities	<u>100</u>
Fund balances:	
Restricted - justice training	<u>8,751</u>
Total fund balances	<u>8,751</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,851</u>

City of Essexville

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds

Year Ended June 30, 2018

	<u>Special Revenue</u> <u>Justice</u> <u>Training</u> <u>Fund</u>
Revenues	
State grants	\$ 954
Total revenues	<u>954</u>
Expenditures	
Public safety	<u>2,500</u>
Total expenditures	<u>2,500</u>
Net change in fund balances	(1,546)
Fund balances-beginning	<u>10,297</u>
Fund balances-ending	<u><u>\$ 8,751</u></u>

City of Essexville

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Passed Through	Award Amount	Passed through to Subrecipient	Total Federal Expenditures (1)	Beginning Loan Balance	Ending Loan Balance
U.S. Department of Agriculture							
Water and Waste Disposal Systems for Rural Communities	10.760	Direct	\$ 5,762,172	\$ -	\$ 3,794,067	\$ 1,649,000	\$ 5,443,067
Department of Justice							
				\$ -	\$ 1,790	N/A	N/A
Total Expenditures of Federal Awards				\$ -	\$ 3,795,857	\$ 1,649,000	\$ 5,443,067

(1) The USDA expenditures include \$147,067 of expenditures incurred during the year ended June 30, 2018 which were not drawn down until October 2018.

See Notes to Schedule of Expenditures of Federal Awards.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the City Council
City of Essexville

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Essexville (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 4, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Andrews Hooper Paulik PLC

Midland, Michigan
January 4, 2019