

Audited Financial Statements

**City of Essexville
Bay County, Michigan**

*Year Ended June 30, 2019
with Report of Independent Auditors*



City of Essexville
Audited Financial Statements
Year Ended June 30, 2019

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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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2019, 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.

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 57-60, and the budgetary comparison information on pages 61-66, 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, 2019 are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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, 2019.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 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 Pavlik PLC

Midland, Michigan
December 10, 2019

City of Essexville

Management's Discussion and Analysis

June 30, 2019

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, 2019. 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 \$311,953 (negative net position). Of this amount, \$3,460,943 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 increased by \$512,115.
- At the close of the current year, the City's governmental funds reported combined fund balances of \$1,093,287, an increase of \$49,354 in comparison with the prior year. Approximately 55% of this amount, which is \$601,080, 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 \$601,080, or approximately 36% 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, 2019

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, 2019

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, 2019

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 \$311,953 at the close of the most recent year.

City of Essexville's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current assets	\$ 1,005,677	\$ 1,041,260	\$ 2,156,061	\$ 1,190,981	\$ 3,161,738	\$ 2,232,241
Capital assets, net	3,481,525	3,527,876	12,462,094	12,621,166	15,943,619	16,149,042
Total assets	4,487,202	4,569,136	14,618,155	13,812,147	19,105,357	18,381,283
Deferred outflows of resources	468,398	213,746	-	-	468,398	213,746
Liabilities						
Current liabilities	127,847	114,256	485,557	463,907	613,404	578,163
Long-term liabilities	6,201,074	6,011,109	12,858,000	12,575,092	19,059,074	18,586,201
Total liabilities	6,328,921	6,125,365	13,343,557	13,038,999	19,672,478	19,164,364
Deferred inflows of resources	213,230	393,766	-	-	213,230	393,766
Net position						
Net investment in capital assets	3,147,689	3,113,515	(490,906)	(108,926)	2,656,783	3,004,589
Restricted	492,207	314,029	-	-	492,207	314,029
Unrestricted	(5,226,447)	(5,163,793)	1,765,504	882,074	(3,460,943)	(4,281,719)
Total net position	\$ (1,586,551)	\$ (1,736,249)	\$ 1,274,598	\$ 773,148	\$ (311,953)	\$ (963,101)

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 (\$3,460,943) 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, 2019

City of Essexville's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 297,201	\$ 246,071	\$ 1,978,835	\$ 1,728,721	\$ 2,276,036	\$ 1,974,792
Operating grants and contributions	486,732	440,446	665,974	-	1,152,706	440,446
Capital grants and contributions	6,000	-	-	-	6,000	-
General revenues:						
Property taxes and fees	1,060,484	970,337	264,591	260,068	1,325,075	1,230,405
Grants and contributions not restricted to programs	411,002	391,224	-	-	411,002	391,224
Interest earnings	16,642	5,344	8,655	1,982	25,297	7,326
Gain on sale of assets	400	30,000	-	-	400	30,000
Transfers	(100,000)	(275,000)	100,000	275,000	-	-
Miscellaneous	7,738	7,765	310,082	72,646	317,820	80,411
Total revenues	2,186,199	1,816,187	3,328,137	2,338,417	5,514,336	4,154,604
Expenses						
General government	768,486	749,933	-	-	768,486	749,933
Public safety	667,047	645,134	-	-	667,047	645,134
Public works	574,738	498,175	-	-	574,738	498,175
Streets	-	-	-	-	-	-
Community development	3,226	4,384	-	-	3,226	4,384
Unallocated fringes	-	-	-	-	-	-
Recreation and culture	23,004	22,903	-	-	23,004	22,903
Interest on long-term debt	-	-	-	-	-	-
Sewer	-	-	1,608,411	1,194,156	1,608,411	1,194,156
Water	-	-	1,016,223	887,094	1,016,223	887,094
Refuse	-	-	341,086	315,955	341,086	315,955
Depreciation	-	-	-	-	-	-
Total expenses	2,036,501	1,920,529	2,965,720	2,397,205	5,002,221	4,317,734
Change in net position	149,698	(104,342)	362,417	(58,788)	512,115	(163,130)
Net position-beginning	(1,736,249)	1,715,996	773,148	730,667	(963,101)	2,446,663
Cumulative effect of change in accounting principle	-	(3,347,903)	-	-	-	(3,347,903)
Prior period adjustment	-	-	139,033	101,269	139,033	101,269
Net position-beginning, as restated	(1,736,249)	(1,631,907)	912,181	831,936	(824,068)	(799,971)
Net position-ending	\$(1,586,551)	\$(1,736,249)	\$ 1,274,598	\$ 773,148	\$ (311,953)	\$ (963,101)

City of Essexville

Management's Discussion and Analysis

June 30, 2019

Governmental Activities. During the current year, net position for governmental activities increased \$149,698 from the prior year for an ending balance of (\$1,586,551). The increase was due to the City's operations remaining consistent with the prior year and no accounting changes in the current year as there were in the prior year.

Business-Type Activities. During the current year, net position for business-type activities increased \$362,417 from the prior year for an ending balance of \$1,274,598. The current year increase was due to the City receiving interest reimbursement from Bay County.

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, 2019, the City's governmental funds reported combined fund balances of \$1,093,287, an increase of \$49,354 in comparison with the prior year. Approximately 55% of this amount constitutes unassigned fund balance of \$601,080, which is available for spending at the City's discretion. The remainder of the fund balance (\$492,207) 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 \$601,080, 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 36% of total General Fund expenditures.

The fund balance of the City's General Fund decreased \$128,824 during the current year. This decrease was due primarily to principal payment being made for the fire truck purchased in the prior year. Overall revenues increased \$139,828 and expenditures decreased by \$164,821 compared to the prior year.

City of Essexville

Management's Discussion and Analysis

June 30, 2019

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 \$880,614, for the Water Fund was \$735,351, and for the Rubbish and Trash Fund was \$128,287. The total increase in net position for the Sewer Fund was \$165,762, for the Water Fund was \$148,601, and the increase in the Rubbish Fund was \$38,174. 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.

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, 2019, amounts to \$15,943,619 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, infrastructure, equipment and the sewer and water systems. The total decrease in capital assets for the current fiscal year was approximately 1%.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 819,931	\$ 819,931	\$ -	\$ -	\$ 819,931	\$ 819,931
Buildings	718,524	762,179	-	-	718,524	762,179
Equipment	38,285	44,517	254,451	285,547	292,736	330,064
Vehicles	532,812	484,782	-	-	532,812	484,782
System	-	-	12,207,643	12,335,619	12,207,643	12,335,619
Infrastructure	1,371,973	1,416,468	-	-	1,371,973	1,416,468
	\$ 3,481,525	\$ 3,527,877	\$ 12,462,094	\$ 12,621,166	\$ 15,943,619	\$ 16,149,043

City of Essexville

Management's Discussion and Analysis

June 30, 2019

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$13,286,836. Of this amount, \$12,953,000 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	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ -	\$ -	\$ 12,953,000	\$ 12,730,092	\$ 12,953,000	\$ 12,730,092
Installment purchase contracts	333,836	414,361	-	-	333,836	414,361
	<u>\$ 333,836</u>	<u>\$ 414,361</u>	<u>\$ 12,953,000</u>	<u>\$ 12,730,092</u>	<u>\$ 13,286,836</u>	<u>\$ 13,144,453</u>

The City's total debt increased by \$142,383, or 1.1%, during the current year.

Economic Factors and Next Year's Budgets and Rates

Projected revenues and expenditures for 2020-2022 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, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 342,389	\$ 855,992	\$ 1,198,381
Investments	553,875	-	553,875
Investments held by trustee	-	-	-
Accounts receivable, net	167	432,237	432,404
Accrued interest receivable	-	-	-
Assessments receivable, net	2,009	5,603	7,612
Internal balances	(21,252)	21,252	-
Due from other governmental units	128,489	92,639	221,128
Due from other funds	-	-	-
Inventory	-	-	-
Prepaid items	-	-	-
Restricted cash and cash equivalents	-	748,338	748,338
Capital assets, net:			
Assets not being depreciated	819,931	-	819,931
Assets being depreciated	2,661,594	12,462,094	15,123,688
Total assets	4,487,202	14,618,155	19,105,357
Deferred outflows of resources			
Related to pension and OPEB	468,398	-	468,398
Liabilities			
Accounts payable	33,070	279,387	312,457
Accrued liabilities	12,092	3,900	15,992
Accrued interest payable	-	99,170	99,170
Due to other governmental units	2,500	7,500	10,000
Deposits and other liabilities	-	600	600
Unearned revenue	-	-	-
Long-term debt:			
Due in one year	80,185	95,000	175,185
Due in more than one year	253,651	12,858,000	13,111,651
Net pension liability	2,471,521	-	2,471,521
Net OPEB liability	3,475,902	-	3,475,902
Total liabilities	6,328,921	13,343,557	19,672,478
Deferred inflows of resources			
Related to pension and OPEB	213,230	-	213,230
Net position			
Net investment in capital assets	3,147,689	(490,906)	2,656,783
Restricted for:			
Landfill postclosure care	-	-	-
Cemetery perpetual care	-	-	-
Streets and highways	366,647	-	366,647
Debt service	-	-	-
Community development	125,560	-	125,560
Unrestricted	(5,226,447)	1,765,504	(3,460,943)
Total net position	\$ (1,586,551)	\$ 1,274,598	\$ (311,953)

See accompanying notes.

City of Essexville

Statement of Activities

Year Ended June 30, 2019

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 768,486	\$ 98,617	\$ 7,055	\$ 6,000	\$ (656,814)		\$ (656,814)
Public safety	667,047	19,871	47,602	-	(599,574)		(599,574)
Public works	574,738	178,713	429,475	-	33,450		33,450
Community development	3,226	-	-	-	(3,226)		(3,226)
Recreation and culture	23,004	-	2,600	-	(20,404)		(20,404)
Total governmental activities	2,036,501	297,201	486,732	6,000	(1,246,568)		(1,246,568)
Business-type activities:							
Sewer	1,608,411	1,073,242	454,291	-		\$ (80,878)	(80,878)
Water	1,016,223	595,328	211,683	-		(209,212)	(209,212)
Rubbish and trash fund	341,086	310,265	-	-		(30,821)	(30,821)
Total business-type activities	2,965,720	1,978,835	665,974	-		(320,911)	(320,911)
Total primary government	\$ 5,002,221	\$ 2,276,036	\$ 1,152,706	\$ 6,000		(320,911)	(1,567,479)
General revenues:							
Property taxes and related fees					1,060,484	264,591	1,325,075
Grants and contributions not restricted to specific programs					411,002	-	411,002
Interest earnings					16,642	8,655	25,297
Gain on sale of assets					400	-	400
Miscellaneous					7,738	310,082	317,820
Transfers					(100,000)	100,000	-
Total general revenues					1,396,266	683,328	2,079,594
Change in net position					149,698	362,417	512,115
Net position-beginning					(1,736,249)	773,148	(963,101)
Prior period adjustment					-	139,033	139,033
Net position-beginning as adjusted					(1,736,249)	912,181	(824,068)
Net position-ending					\$ (1,586,551)	\$ 1,274,598	\$ (311,953)

See accompanying notes.

City of Essexville

Governmental Funds Balance Sheet

June 30, 2019

	General	Major Streets	Local Streets	DDA	Nonmajor Governmental Funds	Total
Assets						
Cash and cash equivalents	\$ 117,024	\$ 257,629	\$ 36,827	\$ 25,696	\$ 10,035	\$ 447,211
Investments	453,875	-	-	100,000	-	553,875
Accounts receivable, net	167	-	-	-	-	167
Assessments receivable, net	2,009	-	-	-	-	2,009
Due from other governmental units	63,774	47,488	17,227	-	-	128,489
Total assets	\$ 636,849	\$ 305,117	\$ 54,054	\$ 125,696	\$ 10,035	\$ 1,131,751
Liabilities, deferred inflows of resources, and fund balances						
Liabilities:						
Accounts payable	\$ 23,885	\$ 632	\$ 36	\$ 60	\$ -	\$ 24,613
Accrued liabilities	9,384	778	1,113	76	-	11,351
Due to state	2,500	-	-	-	-	2,500
Total liabilities	35,769	1,410	1,149	136	-	38,464
Fund balances:						
Restricted - streets and highways	-	303,707	52,905	-	10,035	366,647
Restricted - debt service	-	-	-	-	-	-
Restricted - DDA	-	-	-	125,560	-	125,560
Assigned - fire department	-	-	-	-	-	-
Assigned - subsequent year's budget	-	-	-	-	-	-
Unassigned	601,080	-	-	-	-	601,080
Total fund balances	601,080	303,707	52,905	125,560	10,035	1,093,287
Total liabilities, deferred inflows of resources, and fund balances	\$ 636,849	\$ 305,117	\$ 54,054	\$ 125,696	\$ 10,035	\$ 1,131,751

See accompanying notes.

City of Essexville

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

June 30, 2019

Total fund balances for governmental funds \$ 1,093,287

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	3,856,564
Accumulated depreciation	(900,697)

Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.

Long-term special assessments receivable	-
--	---

Deferred outflows represent financial uses, but are deferred expenses in the government-wide financial statements.	468,398
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Deferred inflows represent deferred pension-related financial sources that are recognized in future periods in the government-wide financial statements.	(213,230)
--	-----------

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.	390,386
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Certain liabilities are not payable in the current period and are not reported in the funds.

Accrued interest payable	-
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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, 2019 are:

Installment purchase contracts	(333,836)
Net pension & OPEB liabilities	<u>(5,947,423)</u>

Total net position of governmental activities	<u>\$ (1,586,551)</u>
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City of Essexville

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

Year Ended June 30, 2019

	General	Major Streets	Local Streets	Debt Service	DDA	Other Governmental Funds	Total
Revenues							
Property taxes and related fees	\$ 1,047,146	\$ -	\$ -	\$ -	\$ 13,338	\$ -	\$ 1,060,484
Licenses and permits	81,595	-	-	-	-	-	81,595
State grants	390,336	274,356	142,687	-	40,153	1,284	848,816
Charges for services	198	-	-	-	-	-	198
Interest earnings	16,642	-	-	-	-	-	16,642
Rents and royalties	50	-	-	-	-	-	50
Fines and forfeitures	16,864	-	-	-	-	-	16,864
Donations	48,918	-	-	-	-	-	48,918
Proceeds from sale of assets	400	-	-	-	-	-	400
Miscellaneous	27,357	-	-	-	-	-	27,357
Total revenues	1,629,506	274,356	142,687	-	53,491	1,284	2,101,324
Expenditures							
General government	295,534	-	-	-	-	-	295,534
Public safety	747,660	-	-	-	-	-	747,660
Public works	72,174	139,759	116,430	-	30,284	-	358,647
Community development	3,226	-	-	-	-	-	3,226
Penalties	2,500	-	-	-	-	-	2,500
Recreation and culture	23,004	-	-	-	-	-	23,004
Capital outlay	9,729	-	-	-	-	-	9,729
Other functions - benefits	408,223	-	-	-	-	-	408,223
Debt Service	89,113	-	-	-	-	-	89,113
Total expenditures	1,651,163	139,759	116,430	-	30,284	-	1,937,636
Excess (deficiency) of revenues over expenditures	(21,657)	134,597	26,257	-	23,207	1,284	163,688
Other financing sources (uses)							
Transfers out	(107,167)	(7,167)	-	-	-	-	(114,334)
Total other financing sources (uses)	(107,167)	(7,167)	-	-	-	-	(114,334)
Net change in fund balances	(128,824)	127,430	26,257	-	23,207	1,284	49,354
Fund balances-beginning	729,904	176,277	26,648	-	102,353	8,751	1,043,933
Fund balances-ending	\$ 601,080	\$ 303,707	\$ 52,905	\$ -	\$ 125,560	\$ 10,035	\$ 1,093,287

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, 2019

Net change in fund balances - total governmental funds	\$ 49,354
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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	9,729
Subtract: depreciation expense	(94,816)
Subtract: sale of fixed assets	(400)

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	58,408
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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	80,525
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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	(44,370)
Other revenue from governmental internal service funds	6,000
Other reconciling items	85,268
Change in net position of governmental activities	\$ 149,698

City of Essexville

Proprietary Funds Statement of Net Position

June 30, 2019

	Proprietary Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Rubbish and Trash Fund		
Assets					
Current assets:					
Cash and cash equivalents	\$ 346,415	\$ 427,331	\$ 82,246	\$ 855,992	\$ (104,822)
Accounts receivable, net	233,341	131,345	67,551	432,237	-
Assessments receivable, net	2,703	1,319	1,581	5,603	-
Due from other governments	92,639	-	-	92,639	-
Restricted current assets:					
Cash and cash equivalents	477,867	270,471	-	748,338	-
Total current assets	1,152,965	830,466	151,378	2,134,809	(104,822)
Noncurrent assets:					
Capital assets:					
Land	-	-	-	-	-
Construction in progress	-	-	-	-	-
Land improvements, net	-	-	-	-	-
Buildings and improvements, net	-	-	-	-	384,281
Equipment, net	254,451	-	-	254,451	2,228
Vehicles, net	-	-	-	-	139,149
Sewer and water system infrastructure, net	6,334,485	5,873,158	-	12,207,643	-
Total noncurrent assets	6,588,936	5,873,158	-	12,462,094	525,658
Total assets	7,741,901	6,703,624	151,378	14,596,903	420,836
Liabilities					
Current liabilities:					
Accounts payable	203,303	53,719	22,365	279,387	8,457
Due to state	7,500	-	-	7,500	-
Accrued expenses	1,495	1,679	726	3,900	741
Accrued interest payable	59,735	39,435	-	99,170	-
Deposits and other liabilities	318	282	-	600	-
Bonds and contracts payable	80,000	15,000	-	95,000	-
Total current liabilities	352,351	110,115	23,091	485,557	9,198
Noncurrent liabilities:					
Bonds and contracts payable	7,137,000	5,721,000	-	12,858,000	-
Total liabilities	7,489,351	5,831,115	23,091	13,343,557	9,198
Net position					
Net investment in capital assets	(628,064)	137,158	-	(490,906)	525,658
Unrestricted	880,614	735,351	128,287	1,744,252	(114,020)
Total net position	\$ 252,550	\$ 872,509	\$ 128,287	\$ 1,253,346	\$ 411,638

See accompanying notes.

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, 2019

Net position - total enterprise funds \$ 1,253,346

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.

21,252

Total net position of business-type activities

\$ 1,274,598

City of Essexville

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

Year Ended June 30, 2019

	Proprietary Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Rubbish and Trash Fund		
Operating revenues					
Charges for services	\$ 1,073,242	\$ 595,328	\$ 310,265	\$ 1,978,835	\$ 178,713
Property taxes and related fees	-	195,596	68,995	264,591	-
Miscellaneous	145,145	164,937	-	310,082	171
Total operating revenues	1,218,387	955,861	379,260	2,553,508	178,884
Operating expenses					
Salaries and wages	76,587	112,642	27,338	216,567	39,770
Payroll taxes	5,689	8,283	1,989	15,961	2,891
Water purchases	-	394,996	-	394,996	-
Employee benefits	51,386	31,437	19,858	102,681	27,162
Retirement	21,495	25,260	6,276	53,031	8,368
Supplies	4,780	16,790	2,598	24,168	56,156
Postage	1,014	1,000	-	2,014	-
Professional and contracted services	391,920	4,953	253,638	650,511	7,915
Design engineering	469,097	-	-	469,097	-
Insurance	11,961	14,966	648	27,575	11,133
Telephone and communications	4,408	-	-	4,408	-
Professional development	-	2,311	-	2,311	-
Utilities	34,213	-	-	34,213	17,945
Equipment	-	-	-	-	2,922
Repair and maintenance	22,339	26,594	-	48,933	6,959
Equipment rental	16,202	21,398	28,741	66,341	-
Miscellaneous	15,729	2,104	-	17,833	929
Depreciation	249,020	159,149	-	408,169	50,984
Total operating expenses	1,375,840	821,883	341,086	2,538,809	233,134
Operating income (loss)	(157,453)	133,978	38,174	14,699	(54,250)
Nonoperating revenues (expenses)					
State grants	454,291	-	-	454,291	-
Interest earnings	5,752	2,903	-	8,655	-
Other revenue	-	211,683	-	211,683	6,000
Interest expense	(236,828)	(192,796)	-	(429,624)	-
Net nonoperating revenues (expenses)	223,215	21,790	-	245,005	6,000
Income (loss) before transfers	65,762	155,768	38,174	259,704	(48,250)
Transfers					
Transfers in	100,000	-	-	100,000	-
Transfers out	-	(7,167)	-	(7,167)	-
Total transfers	100,000	(7,167)	-	92,833	-
Changes in net position	165,762	148,601	38,174	352,537	(48,250)
Total net position-beginning	86,788	584,876	90,113	761,777	459,888
Prior period adjustment	-	139,032	-	139,032	-
Total net position-beginning, as adjusted	86,788	723,908	90,113	900,809	459,888
Total net position-ending	\$ 252,550	\$ 872,509	\$ 128,287	\$ 1,253,346	\$ 411,638

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, 2019

Net change in net position - total enterprise funds \$ 352,537

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.

9,880

Other reconciling items

-

Change in net position of business-type activities

\$ 362,417

City of Essexville

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2019

	Proprietary Funds			Total	Internal Service Fund
	Sewer Fund	Water Fund	Rubbish and Trash Fund		
Cash flows from operating activities					
Receipts from customers	\$ 1,040,278	\$ 914,367	\$ 350,184	\$ 2,304,829	\$ 178,884
Payments to suppliers	(857,973)	(41,886)	(266,299)	(1,166,158)	(101,908)
Payments to employees	(155,157)	(572,618)	(55,461)	(783,236)	(78,191)
Net cash from operating activities	27,148	299,863	28,424	355,435	(1,215)
Cash flows from noncapital financing activities					
Transfers in	100,000	-	-	100,000	-
Transfers out	-	(7,167)	-	(7,167)	-
Other revenue	454,291	211,683	-	665,974	6,000
Net cash from noncapital financing activities	554,291	204,516	-	758,807	6,000
Cash flows from capital and related financing activities					
Purchases and construction of capital assets	-	(249,096)	-	(249,096)	(91,720)
Capital contributions	-	-	-	-	-
Proceeds from the sale of capital assets	-	-	-	-	-
Proceeds from special assessments	-	-	-	-	-
Proceeds from issuance of capital debt	-	318,908	-	318,908	-
Principal paid on capital debt	(70,000)	(26,000)	-	(96,000)	-
Interest paid on capital debt	(236,828)	(153,361)	-	(390,189)	-
Net cash from capital and related financing activities	(306,828)	(109,549)	-	(416,377)	(91,720)
Cash flows from investing activities					
Purchases of investments	-	-	-	-	-
Proceeds from the sale of investments	-	-	-	-	-
Interest earnings	5,752	2,903	-	8,655	-
Net cash from investing activities	5,752	2,903	-	8,655	-
Net change in cash and cash equivalents	280,363	397,733	28,424	706,520	(86,935)
Balances-beginning of year	543,919	300,069	53,822	897,810	(17,887)
Balances-end of year	\$ 824,282	\$ 697,802	\$ 82,246	\$ 1,604,330	\$ (104,822)
Displayed as:					
Cash and cash equivalents	\$ 346,415	\$ 427,331	\$ 82,246	\$ 855,992	\$ (104,822)
Restricted cash and cash equivalents	477,867	270,471	-	748,338	-
	\$ 824,282	\$ 697,802	\$ 82,246	\$ 1,604,330	\$ (104,822)
Reconciliation of operating income (loss) to net cash from operating activities:					
Operating income (loss)	\$ (157,453)	\$ 133,978	\$ 38,174	\$ 14,699	\$ (54,250)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation expense	249,020	159,149	-	408,169	50,984
Change in assets and liabilities:					
Accounts receivable and assessments, net	(178,109)	(41,494)	(29,076)	(248,679)	-
Inventory	-	-	-	-	-
Prepaid items	-	-	-	-	-
Accounts payable	113,690	(90,802)	19,326	42,214	2,051
Accrued expenses	-	-	-	-	-
Deposits and other liabilities	-	-	-	-	-
Prior period adjustments to fund balance	-	139,032	-	139,032	-
Net cash from operating activities	\$ 27,148	\$ 299,863	\$ 28,424	\$ 355,435	\$ (1,215)

See accompanying notes.

City of Essexville

Fiduciary Funds - Agency Funds
Statement of Net Position

June 30, 2019

	Fringe Benefit Agency Fund	Current Tax Collection Fund	Total
Assets			
Cash and cash equivalents	\$ 32,405	\$ -	\$ 32,405
Total assets	<u>\$ 32,405</u>	<u>\$ -</u>	<u>\$ 32,405</u>
Net Position			
Held in trust for benefits	<u>\$ 32,405</u>	<u>\$ -</u>	<u>\$ 32,405</u>

City of Essexville

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

June 30, 2019

	Fringe Benefit Agency Fund
Additions	
Employer contributions	\$ 21,501
Investment income	-
Total additions	<u>21,501</u>
Deductions	
Decrease in available employee benefits	<u>(21,349)</u>
Total deductions	<u>(21,349)</u>
Change in net position	152
Net position-beginning	<u>32,253</u>
Net position-end	<u><u>\$ 32,405</u></u>

City of Essexville

Notes to Financial Statements

June 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019

1. Summary of Significant Accounting Policies (continued)

E. 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 and OPEB liabilities.

F. 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.

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

F. Measurement Focus and Basis of Accounting (continued)

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.

G. 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. 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.

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

G. Budgetary Information (continued)

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:			
Legislative – City council	\$13,958	\$16,544	\$2,586
Administration	62,464	64,035	1,571
City attorney	27,500	28,849	1,349
Public works:			
Street lighting	53,000	54,471	1,471
Penalties	-	-	2,500

H. 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, 2019 are \$312,471. These funds are restricted to be used for future debt payments.

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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

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, 2019 totaled \$165,396. 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, 2019, the Water Fund has restricted cash totaling \$270,471 consisting of a construction cash account of \$0 and a reserve cash account of \$270,471.

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.

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

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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

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. The government reports the deferred outflows of resources related to the City's net pension liability. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members. Also, 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. The government reports the deferred outflows of resources related to the City's net pension liability and its net OPEB liability. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members.

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.

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, 2019 is included in the Fringe Benefit Fund.

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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

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, information about the fiduciary net position of the Plan and additions to/deductions from the Employer’s fiduciary net position have been determined on the same basis as they are reported by the Employer. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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.

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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

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.

I. 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.

City of Essexville

Notes to Financial Statements

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

I. Revenues and Expenditures/Expenses (continued)

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 \$72,800,422. Ad Valorem taxes levied on this valuation consisted of 13.7600 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.

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.

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	\$ 1,198,381	\$ -	\$ 1,198,381
Investments		553,875	553,875
Restricted cash and cash equivalents	748,338	-	748,338
Fiduciary Funds:			
Cash and cash equivalents	32,405	-	32,405
	<u>\$ 1,979,124</u>	<u>\$ 553,875</u>	<u>\$ 2,532,999</u>

As more fully detailed in Note 5, restricted cash consists of debt and maintenance reserve funds held in connection with the City’s Sewer Fund and Water Fund bonds.

City of Essexville

Notes to Financial Statements

June 30, 2019

2. Deposits and Investments (continued)

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, 2019, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
Certificates of deposit	\$ 197,000	1 year
U.S. money market securities	256,875	<1 year
U.S. Home Loan Mortgage Corporation Medium Term 1.5% Notes	100,000	2-3 years
	<u>\$ 553,875</u>	

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, \$1,907,023 of the City's bank balances of \$2,157,873 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.

City of Essexville

Notes to Financial Statements

June 30, 2019

2. Deposits and Investments (continued)

Investment and Deposit Risk (continued)

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, 2019

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	1,605,014	99,447	-	1,704,461
Total capital assets being depreciated	4,512,046	99,447	-	4,611,493
Less accumulated depreciation:				
Infrastructure	(332,045)	(44,495)	-	(376,540)
Buildings and improvements	(396,340)	(29,835)	-	(439,995)
Vehicles, furniture and equipment	(1,075,715)	(71,469)	-	(1,133,364)
Total accumulated depreciation	(1,804,100)	(145,799)	-	(1,949,899)
Total capital assets being depreciated, net	2,707,946	(46,352)	-	2,661,594
Governmental activities capital assets, net	\$ 3,527,877	\$ (46,352)	\$ -	\$ 3,481,525

City of Essexville

Notes to Financial Statements

June 30, 2019

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	14,258,503	249,097	-	14,507,600
Furniture and equipment	508,633	-	-	508,633
Total capital assets being depreciated	14,767,136	249,097	-	15,016,233
Less accumulated depreciation:				
Buildings and improvements	-	-	-	-
Water and sewer distribution systems	(1,922,884)	(377,073)	-	(2,299,957)
Furniture and equipment	(223,086)	(31,096)	-	(254,182)
Total accumulated depreciation	(2,145,970)	(408,169)	-	(2,554,139)
Total capital assets being depreciated, net	12,621,166	159,072	-	12,462,094
Business-type activities capital assets, net	\$ 12,621,166	\$ 159,072	\$ -	\$ 12,462,094

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

Governmental Activities	
General government	\$ 21,191
Public safety	29,130
Public works	44,495
Internal Service Fund depreciation	50,983
	<u>\$ 145,799</u>
Business-Type Activities	
Sewer	\$ 249,020
Water	159,149
	<u>\$ 408,169</u>

City of Essexville

Notes to Financial Statements

June 30, 2019

4. Interfund Receivables, Payables, and Transfers

As of June 30, 2019, there were no interfund receivables or payables. The composition of interfund transfers out and in is as follows:

Fund	Transfers Out	Fund	Transfers In
General	\$100,000	Sewer Fund	\$100,000
General	7,167	Fringe Benefit	7,167
Major Streets	7,167	Fringe Benefit	7,167
Water	<u>7,167</u>	Fringe Benefit	<u>7,167</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, 2019

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	\$ -	\$ 80,525	\$ 333,836	\$ 80,185
	<u>\$ 414,361</u>	<u>\$ -</u>	<u>\$ 80,525</u>	<u>\$ 333,836</u>	<u>\$ 80,185</u>
Business-Type Activities					
Sewer Fund					
Sewage system revenue bonds, due 2051, 2.5% interest	7,287,000	-	(70,000)	7,217,000	80,000
Water Fund					
General Obligation Unlimited Tax Bonds, Series 2017, due 2056, 2.75% interest	5,443,092	318,908	(26,000)	5,736,000	15,000
	<u>\$12,730,092</u>	<u>\$ 318,908</u>	<u>\$ (96,000)</u>	<u>\$ 12,953,000</u>	<u>\$ 95,000</u>

The Sewer Fund and Water Fund bonds are held by the United States Department of Agriculture and are not subject to defeasance. Debt and maintenance reserves held as restricted cash consist of the following:

	Debt	Maintenance	Total
Sewer Fund	\$ 312,471	\$ 165,396	\$ 477,867
Water Fund	270,471	-	270,471
			<u>\$ 748,338</u>

City of Essexville

Notes to Financial Statements

June 30, 2019

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
2020	80,185	8,928	95,000	392,292
2021	82,329	6,784	125,000	389,280
2022	84,531	4,582	150,000	385,394
2023	86,792	2,321	155,000	380,768
2024	-	-	185,000	375,982
2025-2029	-	-	1,140,000	1,785,266
2030-2034	-	-	1,470,000	1,589,040
2035-2039	-	-	1,925,000	1,337,826
2040-2044	-	-	2,445,000	1,003,554
2045-2049	-	-	3,227,000	583,652
2050-2054	-	-	1,250,000	211,202
2055-2057	-	-	786,000	43,534
	<u>\$333,837</u>	<u>\$ 22,615</u>	<u>\$12,953,000</u>	<u>\$8,477,790</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, 2019

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 4.70% to 5.00%.

City of Essexville

Notes to Financial Statements

June 30, 2019

8. Defined Benefit Pension Plan (continued)

Employees covered by benefit terms. As of the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>13</u>
	<u>47</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.

Since all six of the Plan's divisions are closed to new employees, the City pays monthly dollar contributions which range from \$2,582 to \$7,972 depending on the division. Employee contributions range from 4.7% to 5.0%. The City paid approximately \$259,000 in pension contributions for the year ended June 30, 2019.

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2018, 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, 2018 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%
- Investment rate of return: 7.75%, net of investment expense, including inflation. Effective with the December 31, 2019 valuation this rate will be reduced to 7.35%.
- 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 the valuation were based on the results of the actuarial experience study of 2009-2013

City of Essexville

Notes to Financial Statements

June 30, 2019

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	55.50%	3.41%
Global Fixed Income	18.50%	0.23%
Real Assets	13.50%	0.97%
Diversifying Strategies	12.50%	0.63%
Total	100.00%	5.24%

Discount Rate. The discount rate used to measure the total pension liability is 8% for 2018. 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, 2019

8. Defined Benefit Pension Plan (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at December 31, 2017	\$6,763,821	\$4,844,765	\$1,919,056
Changes for the year			
Service Cost	83,494	-	83,494
Interest on total pension liability	523,168	-	523,168
Changes in benefit terms	-	-	-
Difference between expected and actual experience	26,792	-	26,792
Changes in assumptions	-	-	-
Employer contributions	-	235,123	(235,123)
Employee contributions	-	36,658	(36,658)
Net investment income	-	(181,591)	181,591
Benefit payments, including employee refunds	(531,935)	(531,935)	-
Administrative expense	-	(9,201)	9,201
Other changes	-	-	-
Net changes	101,519	(450,946)	552,465
Balances as of December 31, 2018	\$6,865,340	\$4,393,819	\$2,471,521

City of Essexville

Notes to Financial Statements

June 30, 2019

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>\$3,152,432</u>	<u>\$2,471,521</u>	<u>\$1,892,820</u>

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

For the year ended June 30, 2019 the employer recognized pension expense of \$295,417. 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	\$ -	\$ 161,247
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	336,051	-
Contributions subsequent to the measurement date*	<u>132,347</u>	<u>-</u>
Total	<u>\$ 468,398</u>	<u>\$ 161,247</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, 2019.

City of Essexville

Notes to Financial Statements

June 30, 2019

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:

<u>Year Ended June 30</u>	
2019	\$ (6,271)
2020	4,308
2021	65,087
2022	<u>111,680</u>
	<u>\$ 174,804</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

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the Employer’s fiduciary net position have been determined on the same basis as they are reported by the Employer. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

City of Essexville Post-Retirement Health Insurance Plan is a single employer plan established and administered by City of Essexville and can be amended at its discretion. The Plan is closed to new employees. Benefit payments are made from general operating funds.

City of Essexville

Notes to Financial Statements

June 30, 2019

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

Plan Description (continued)

Plan Membership

As of December 31, 2018, the OPEB plan consisted of:

Active plan members	2
Inactive plan members receiving benefits	15
Spouses of inactive plan members receiving benefits	<u>10</u>
Total	<u><u>27</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 eligible members and their spouses. 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.

Contributions

The City of Essexville Post-Retirement Health Insurance Plan was established and is being funded under the authority of the City. The plan's funding policy is that the employer will contribute any required amounts as determined by an annual actuarial valuation as a reference but not as a definitive requirement. The City of Essexville has the authority to establish and amend the obligations of the City of Essexville and plan members to contribute to the plan. Active plan members are currently not obligated to make contributions to the plan. Currently, benefit payments are made from general operating funds. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves.

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, 2019 since the City has not yet established a trust for the accumulation of investments.

City of Essexville

Notes to Financial Statements

June 30, 2019

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

Net OPEB Liability of the City

The components of the net OPEB liability of the City as of June 30, 2019, were as follows:

Total OPEB liability	\$3,475,902
OPEB plan fiduciary net position	-
Net OPEB liability	<u>\$3,475,902</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, 2018. The following actuarial assumptions were used in the measurement.

Inflation	Not applicable
Salary Increases	3.5% (for purposes of allocating liability)
Discount Rate	3.64%
Investment Rate of Return	N/A since this plan is not pre-funded
20-year Aa Municipal bond rate	3.64%
Healthcare Cost Trend Rates – pre-65	8.5% in 2020 graded down .25% per year to an ultimate rate of 4.5%
Healthcare Cost Trend Rates – post-65	7.0% in 2020 graded down .25% per year to an ultimate rate of 4.5%
Mortality	Public Safety – Public Safety 2010 Employee and Healthy Retiree, headcount weighted, 2018 improvement Spouses and General employees – Public General 2010 Employee and Healthy Retiree, headcount weighted, 2018 improvement

City of Essexville

Notes to Financial Statements

June 30, 2019

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

OPEB Plan Investments (continued)

Discount Rate – The discount rate used to measure the total OPEB liability was 3.64%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”, 2019), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. The discount rate used for December 31, 2017 was 4.0%. The discount rate used to measure the total OPEB liability for 2018 was 3.31%.

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, 2018	\$ 3,758,216	\$ -	\$ 3,758,216
Changes for the Year:			
Service cost	57,876	-	57,876
Interest on the total OPEB liability	149,364	-	149,364
Changes in benefits	-	-	-
Difference between expected and actual experience	(273,579)	-	(273,579)
Changes in actuarial assumptions	(51,998)	-	(51,998)
Employer contributions to OPEB Trust	-	-	-
Contributions paid from general operating funds	-	163,977	(163,977)
Net investment income	-	-	-
Benefit payments, including employee refunds	(163,977)	(163,977)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	(282,314)	-	(282,314)
Balances as of June 30, 2019	\$ 3,475,902	\$ -	\$ 3,475,902

City of Essexville

Notes to Financial Statements

June 30, 2019

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 (2.64%)	Current Rate (3.64%)	1% Increase (4.64%)
Net OPEB Liability	\$4,003,428	\$3,475,902	\$3,050,905

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 (3.50%)	Current Healthcare Cost Trend Rates (4.5%)	1% Increase (5.50%)
Net OPEB Liability	\$3,041,609	\$3,475,902	\$4,016,466

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

For the year ended June 30, 2019, the City recognized OPEB expense as follows:

	OPEB Expense
Service cost	\$ 57,876
Interest on the total OPEB liability	149,364
Experience (gains) / losses	(229,898)
Changes in assumptions	(43,696)
Employee contributions	-
Projected earnings on OPEB investments	-
Investment earnings (gains)/losses	-
Administrative expense	-
Other changes	-
Total OPEB expense	<u>\$ (66,354)</u>

City of Essexville

Notes to Financial Statements

June 30, 2019

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Experience (gains) losses	\$ -	\$ 43,681
Changes in assumptions	-	8,302
Total	<u>\$ -</u>	<u>\$ 51,983</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>	
2020	\$ (51,983)
2021	-
2022	-
2023	-
2024	-

10. Pension Plan

The City provides pension benefits to employees of the City through a defined contribution plan administered by MERS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 6% of employee gross earnings and the employee contributes 6% of earnings. In accordance with these requirements, the City and employees each contributed \$9,359 during the current year.

11. 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, 2019

12. 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.

13. 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 \$1,610.

14. 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, 2019

15. Prior Period Adjustment

Beginning fund balance for the water fund was understated due to amounts for the completion of the water fund project were expensed in the prior year, instead of capitalized. Accordingly, beginning unrestricted net position has been restated as detailed below:

	<u>Water Fund</u>
Net position, beginning of year, as previously reported	\$ 584,876
Amounts to be capitalized as of July 1, 2018	<u>139,032</u>
Net position, beginning of year, as restated	<u>\$ 723,908</u>

16. 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

Required Supplementary Information
Defined Benefit Pension Plan (MERS)

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

	2018	2017	2016	2015	2014
Total pension liability					
Service Cost	\$ 83,494	\$ 96,843	\$ 100,579	\$ 106,019	\$ 93,640
Interest	523,168	528,830	549,818	530,323	520,968
Changes of benefit terms	-	(1,227)	-	-	-
Difference between expected and actual experience	26,792	(164,262)	-	-	-
Changes of assumptions	-	-	-	-	-
Benefit payments including employee refunds	(531,935)	(516,624)	(529,323)	(509,508)	(507,398)
Other	-	(1)	(387,910)	331,416	-
Net change in total pension liability	101,519	(56,441)	(266,836)	458,250	107,210
Total pension liability, beginning	6,763,821	6,820,262	7,087,098	6,628,848	6,521,638
Total pension liability, ending	\$ 6,865,340	\$ 6,763,821	\$ 6,820,262	\$ 7,087,098	\$ 6,628,848
Plan fiduciary net position					
Contributions-employer	\$ 235,123	\$ 244,309	\$ 260,893	\$ 251,433	\$ 206,566
Contributions-employee	36,658	43,219	44,097	44,236	38,911
Net investment income	(181,591)	583,405	474,009	(65,927)	281,242
Benefit payments including employee refunds	(531,935)	(516,624)	(529,323)	(509,508)	(507,398)
Administrative expense and other changes	(9,201)	(9,255)	(9,366)	(9,770)	(10,276)
Net change in plan fiduciary net position	(450,946)	345,054	240,310	(289,536)	9,045
Plan fiduciary net position, beginning	4,844,765	4,499,711	4,259,401	4,548,937	4,539,892
Plan fiduciary net position, ending	\$ 4,393,819	\$ 4,844,765	\$ 4,499,711	\$ 4,259,401	\$ 4,548,937
Employer net pension liability	\$ 2,471,521	\$ 1,919,056	\$ 2,320,551	\$ 2,827,697	\$ 2,079,911
Plan fiduciary net position as a percentage of the total pension liability	64.0%	71.6%	66.0%	60.1%	68.6%
Covered employee payroll	\$ 698,744	\$ 865,467	\$ 877,950	\$ 938,908	\$ 827,744
Employer's net pension liability as a percentage of covered employee payroll	353.7%	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:

There were no changes in actuarial assumptions or methods for the 2018 actuarial valuation.

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

	2018	2017	2016	2015	2014	2013	2012
Actuarial determined contributions	\$ 235,123	\$ 244,309	\$ 260,893	\$ 251,433	\$ 206,566	\$ 158,645	\$ 128,366
Contributions in relation to the actuarially determined contribution	235,123	244,309	260,893	251,433	206,566	158,645	128,366
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 698,744	\$ 865,467	\$ 877,950	\$ 938,908	\$ 827,744	\$ 1,164,366	\$ 1,252,982
Contributions as a percentage of covered employee payroll	34%	28%	30%	27%	25%	14%	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, 2019

	2018	2017
Total OPEB liability		
Service cost	\$ 57,876	\$ 62,451
Interest	149,364	123,147
Changes in benefits	-	-
Difference between expected and actual experience	(273,579)	(47,646)
Changes in assumptions	(51,998)	-
Benefit payments including refunds	(163,977)	(137,952)
Net change in total OPEB liability	(282,314)	-
Total OPEB liability at beginning of year	3,758,216	3,758,216
Total OPEB liability at end of year (a)	<u>\$ 3,475,902</u>	<u>\$ 3,758,216</u>
Plan fiduciary net position		
Contributions to OPEB trust	-	-
Contributions/benefit payments made from general operating funds	163,977	137,952
Net investment income	-	-
Benefit payments including refunds	(163,977)	(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 (b)	<u>\$ -</u>	<u>\$ -</u>
City's net OPEB liability at end of year (a)-(b)	<u>\$ 3,475,902</u>	<u>\$ 3,758,216</u>
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%
Covered employee payroll	\$ 113,072	Not Avail.
Employer's net pension liability as a percentage of covered employee payroll	3074.1%	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, 2019

	<u>2019</u>
Actuarially determined employer contribution	427,707
Actual contribution	163,977
Contribution deficiency (excess)	<u>\$ 263,730</u>
Covered employee payroll	\$ 113,072
Contributions as a percentage of covered employee payroll	145.02%

Notes to schedule

Actuarial valuation information relative to the determination of contributions:

Valuation date	December 31, 2018
Actuarial determined contribution	\$ 427,707

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	N/A
Actuarial assumptions:	
Inflation	N/A
Salary increases	3.5% (for purposes of allocating liability)
Investment rate of return	N/A as this plan is not pre-funded
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	RP-2014 adjusted to 2006, Headcount weighted, MP-2018
Healthcare trend rate	Pre-65: 8.5% in 2020 graded down .25% per year to an ultimate rate of 4.5%
	Post-65: 7.0% in 2020 graded down .25% per year to an ultimate rate of 4.5%
Assumption changes since prior valuation:	
	Mortality tables updated
	Discount rate decreased from 4.0% to 3.64%
	Salary scale updated from 3.0% to 3.5%
	Trend rates updated

City of Essexville

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 1,236,446	\$ 1,236,446	\$ 1,047,146	\$ (189,300)
Licenses and permits	76,000	76,000	81,595	5,595
Federal revenue	-	-	-	-
State revenue	574,594	374,594	390,336	15,742
Charges for services	300	300	198	(102)
Interest earnings	6,289	6,289	16,642	10,353
Rents and royalties	-	-	50	50
Fines and forfeitures	12,300	12,300	16,864	4,564
Special assessments, net	-	-	-	-
Donations	2,000	63,871	48,918	(14,953)
Proceeds from sale of assets	-	400	400	-
Miscellaneous	5,500	8,901	27,357	18,456
Total revenues	1,913,429	1,779,101	1,629,506	(149,595)
Expenditures				
General government:				
Legislative - City Council	14,958	13,958	16,544	(2,586)
Administration	65,464	62,464	64,035	(1,571)
Elections	12,200	12,200	6,412	5,788
Assessor	26,274	26,274	21,239	5,035
City attorney	20,000	27,500	28,849	(1,349)
Board of review	1,419	1,419	1,210	209
Clerk	59,281	60,281	56,893	3,388
Treasurer	25,995	26,495	25,445	1,050
Accounting and auditing	7,000	14,500	14,490	10
Forestry	18,983	16,983	14,526	2,457
City hall	59,659	54,159	45,891	8,268
All other general government	550	550	-	550
Public safety:				
Fire department	70,664	124,465	115,687	8,778
Police department	621,642	636,856	605,056	31,800
Inspections	27,414	27,414	26,917	497
Public works:				
Sidewalks	500	500	-	500
Street lighting	53,000	53,000	54,471	(1,471)
Department of public works	21,467	19,967	17,703	2,264
Penalties	-	-	2,500	(2,500)
Parks and recreation	36,310	36,310	23,004	13,306
Community development:				
Planning	100	100	-	100
Zoning	9,769	4,769	3,226	1,543

City of Essexville

Budgetary Comparison Schedule - General Fund (continued)

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Other functions:				
Fringe benefits	\$ 297,877	\$ 297,877	\$ 236,627	\$ 61,250
Pension	180,000	180,000	171,596	8,404
Capital outlay:				
General government	14,000	14,000	9,729	4,271
Public safety	-	40,000	-	40,000
Public works	37,000	36,000	-	36,000
Debt service:				
Principal	80,525	80,525	80,524	1
Interest and fiscal charges	8,589	8,589	8,589	-
Total expenditures	<u>1,770,640</u>	<u>1,877,155</u>	<u>1,651,163</u>	<u>225,992</u>
Excess (deficiency) of revenues over expenditures	142,789	(98,054)	(21,657)	76,397
Other financing sources (uses)				
Transfers out	(77,000)	(212,000)	(107,167)	104,833
Total other financing sources (uses)	<u>(77,000)</u>	<u>(212,000)</u>	<u>(107,167)</u>	<u>104,833</u>
Net change in fund balances	65,789	(310,054)	(128,824)	181,230
Fund balances-beginning	729,904	729,904	729,904	-
Fund balances-ending	<u>\$ 795,693</u>	<u>\$ 419,850</u>	<u>\$ 601,080</u>	<u>\$ 181,230</u>

City of Essexville

Budgetary Comparison Schedule - Major Streets Fund

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State revenue	\$ 249,620	\$ 249,620	\$ 274,356	\$ 24,736
Interest earnings	100	100	-	(100)
Other	14,000	14,000	-	(14,000)
Total revenues	263,720	263,720	274,356	10,636
Expenditures				
Public works:				
Wages	47,486	47,486	31,070	16,416
Payroll taxes	3,633	3,633	2,254	1,379
Fringe benefits	30,308	30,308	20,481	9,827
Retirement	7,488	7,488	8,255	(767)
Operating supplies	24,700	24,700	22,627	2,073
Professional and contractual services	13,730	13,730	14,697	(967)
Insurance	-	-	-	-
Equipment rental	46,000	46,000	40,375	5,625
Miscellaneous	1,500	1,500	-	1,500
Capital outlay	-	50,000	-	50,000
Total expenditures	174,845	224,845	139,759	85,086
Excess (deficiency) of revenues over expenditures	88,875	38,875	134,597	95,722
Other financing sources (uses)				
Transfers in	20,000	-	-	-
Transfers out	(39,450)	(39,450)	(7,167)	32,283
Total other financing sources (uses)	(19,450)	(39,450)	(7,167)	32,283
Net change in fund balance	69,425	(575)	127,430	128,005
Fund balance-beginning	176,277	176,277	176,277	-
Fund balance-ending	\$ 245,702	\$ 175,702	\$ 303,707	\$ 128,005

City of Essexville

Budgetary Comparison Schedule - Local Streets Fund

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State revenue	\$ 90,635	\$ 90,635	\$ 142,687	\$ 52,052
Miscellaneous	10,000	10,000	-	(10,000)
Total revenues	<u>100,635</u>	<u>100,635</u>	142,687	42,052
Expenditures				
Public works:				
Wages	43,100	43,100	24,004	19,096
Payroll taxes	3,298	3,298	1,735	1,563
Fringe benefits	27,212	27,212	21,199	6,013
Retirement	6,665	6,665	8,221	(1,556)
Operating supplies	14,650	14,650	13,249	1,401
Professional and contractual services	3,481	3,481	2,104	1,377
Equipment rental	37,500	37,500	45,918	(8,418)
Miscellaneous	1,500	1,500	-	1,500
Capital outlay	25,000	25,000	-	25,000
Total expenditures	<u>162,406</u>	<u>162,406</u>	116,430	45,976
Excess (deficiency) of revenues over expenditures	<u>(61,771)</u>	<u>(61,771)</u>	26,257	88,028
Other financing sources (uses)				
Transfers in	85,000	45,000	-	(45,000)
Transfers out	(7,500)	(7,500)	-	7,500
Total other financing sources (uses)	<u>77,500</u>	<u>37,500</u>	-	(37,500)
Net change in fund balance	15,729	(24,271)	26,257	50,528
Fund balance-beginning	26,648	26,648	26,648	-
Fund balance-ending	<u>\$ 42,377</u>	<u>\$ 2,377</u>	<u>\$ 52,905</u>	<u>\$ 50,528</u>

City of Essexville

Budgetary Comparison Schedule - Debt Service Fund

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 217,695	\$ 217,695	\$ -	\$ (217,695)
Total revenues	217,695	217,695	-	(217,695)
Expenditures				
Debt service:				
Principal	11,000	11,000	-	11,000
Interest and fiscal charges	119,470	-	-	-
Total expenditures	130,470	11,000	-	11,000
Excess (deficiency) of revenues over expenditures	87,225	206,695	-	(206,695)
Net change in fund balance	87,225	206,695	-	(206,695)
Fund balance-beginning	-	-	-	-
Fund balance-ending	\$ 87,225	\$ 206,695	\$ -	\$ (206,695)

City of Essexville

Budgetary Comparison Schedule - DDA

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 52,628	\$ 52,628	\$ 13,338	\$ (39,290)
State revenue	44,000	44,000	40,153	(3,847)
Interest earnings	850	850	-	(850)
Miscellaneous	100	100	-	(100)
Total revenues	97,578	97,578	53,491	(44,087)
Expenditures				
Public works:				
Wages	9,300	9,300	7,434	1,866
Payroll taxes	710	710	564	146
Retirement	2,500	2,500	9,318	(6,818)
Operating supplies	100	100	-	100
Insurance	260	260	229	31
Equipment rental	3,500	3,500	731	2,769
Professional and contractual services	4,250	4,250	3,310	940
Miscellaneous	5,600	5,600	6,140	(540)
Capital Outlay	8,000	8,000	558	7,442
Site Plan Development	-	-	2,000	(2,000)
Total expenditures	34,220	34,220	30,284	3,936
Excess (deficiency) of revenues over expenditures	63,358	63,358	23,207	(40,151)
Other financing sources (uses)				
Transfers out	(50,000)	(20,000)	-	20,000
Total other financing sources (uses)	(50,000)	(20,000)	-	20,000
Net change in fund balances	13,358	43,358	23,207	(20,151)
Fund balances-beginning	102,353	102,353	102,353	-
Fund balances-ending	\$ 115,711	\$ 145,711	\$ 125,560	\$ (20,151)

City of Essexville

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2019

	<u>Special Revenue</u> <u>Justice</u> <u>Training</u> <u>Fund</u>
Assets	
Cash and cash equivalents	\$ 10,035
Total assets	<u>\$ 10,035</u>
Fund balances:	
Restricted - justice training	<u>10,035</u>
Total fund balances	<u>10,035</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 10,035</u>

City of Essexville

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

Year Ended June 30, 2019

	<u>Special Revenue</u> <u>Justice</u> <u>Training</u> <u>Fund</u>
Revenues	
State grants	\$ 1,284
Miscellaneous	-
Total revenues	<u>1,284</u>
Excess (deficiency) of revenues over expenditures	1,284
Net change in fund balances	1,284
Fund balances-beginning	8,751
Fund balances-ending	<u><u>\$ 10,035</u></u>

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 10, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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
December 10, 2019