

CITY OF VASSAR

Tuscola County, Michigan

FINANCIAL STATEMENTS

June 30, 2018

CITY OF VASSAR

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June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of Vassar, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vassar as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Vassar as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members of City Council
City of Vassar, Michigan

Change in Accounting Principle and Emphasis of Matter

During the year ended June 30, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 8), schedule of changes in the net pension liability and related ratios (page 51), schedule of defined benefit plan pension contributions (page 52), schedule of changes in the net OPEB liability and related ratios (page 53), schedule of OPEB plan contributions (page 54) and budgetary comparison information (pages 55 through 57) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vassar's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of the City of Vassar'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 Vassar's internal control over financial reporting and compliance.

Berthiaume & Co.
Saginaw, Michigan
December 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

As management of the City of Vassar (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$8,936,057 for the fiscal year ended June 30, 2018, compared to \$9,438,586 for the fiscal year ended June 30, 2017.
- In the City's governmental activities, revenues generated were \$2,043,535 while expenses totaled \$2,009,831.
- In the City's business-type activities, revenues generated were \$1,182,517 while expenses totaled \$1,240,313.
- Total net position decreased by \$18,136.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the City's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities with the difference between them reported as net position. The *statement of activities* presents all of the City's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the City of Vassar are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The City charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include electric, water and sewer, and solid waste.

Component Units – The City includes the Downtown Development Authority and the Economic Development Corporation as discretely presented component units.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. 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.

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

The City has three types of funds:

Governmental Funds – Many of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The City maintains nine (9) individual governmental funds. Separate information is presented for the General Fund and Major Street Fund which are considered to be "major" funds. Data from the other seven (7) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been presented for major governmental funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the City charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds. The City has no internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows. The City's enterprise funds are the Sewer Fund and Water Fund.

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

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 certain required supplementary information concerning the City. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

THE CITY OF VASSAR AS A WHOLE:

The City's total combined net position for the fiscal year ended June 30, 2018 is \$8,936,057, consisting of \$3,348,154 in governmental activities and \$5,587,903 in business-type activities.

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is a deficit (\$33,443). Governmental activities unrestricted net position is a deficit of (\$1,276,727), while business-type activities unrestricted net position is a positive \$1,243,284.

The following table shows comparisons of total assets, total deferred outflows, total liabilities, total deferred inflows, and total net position in a condensed format at June 30, 2018 and June 30, 2017.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets:						
Current and other assets	\$ 2,018,979	\$ 1,828,826	\$ 2,633,917	\$ 2,399,829	\$ 4,652,896	\$ 4,228,655
Capital assets, net	<u>3,883,689</u>	<u>3,970,563</u>	<u>5,154,784</u>	<u>5,471,812</u>	<u>9,038,473</u>	<u>9,442,375</u>
Total assets	<u>5,902,668</u>	<u>5,799,389</u>	<u>7,788,701</u>	<u>7,871,641</u>	<u>13,691,369</u>	<u>13,671,030</u>
Deferred outflows	<u>102,731</u>	<u>159,986</u>	<u>60,485</u>	<u>119,140</u>	<u>163,216</u>	<u>279,126</u>
Liabilities:						
Current and other liabilities	77,953	114,173	36,456	61,275	114,409	175,448
Long-term liabilities	<u>2,536,016</u>	<u>2,209,271</u>	<u>2,194,462</u>	<u>2,126,851</u>	<u>4,730,478</u>	<u>4,336,122</u>
Total liabilities	<u>2,613,969</u>	<u>2,323,444</u>	<u>2,230,918</u>	<u>2,188,126</u>	<u>4,844,887</u>	<u>4,511,570</u>
Deferred inflows	<u>43,276</u>	<u>-</u>	<u>30,365</u>	<u>-</u>	<u>73,641</u>	<u>-</u>
Net position:						
Net investment in capital assets	3,883,689	3,942,233	4,328,784	4,554,230	8,212,473	8,496,463
Restricted	741,192	672,586	15,835	12,668	757,027	685,254
Unrestricted (deficit)	<u>(1,276,727)</u>	<u>(978,888)</u>	<u>1,243,284</u>	<u>1,235,757</u>	<u>(33,443)</u>	<u>256,869</u>
Total net position	<u>\$ 3,348,154</u>	<u>\$ 3,635,931</u>	<u>\$ 5,587,903</u>	<u>\$ 5,802,655</u>	<u>\$ 8,936,057</u>	<u>\$ 9,438,586</u>

The City's combined total net position decreased by \$18,136 during the current fiscal year. Governmental activities increased by \$39,660 while business-type activities decreased by \$57,796. Also, the beginning net position was decreased \$484,393 as a result of implementing GASB Statement No. 75.

Governmental Activities:

The total governmental revenue is reported at \$2,043,535, an increase of \$142,884 from the prior fiscal year. Total expenses decreased by \$2,455 from the prior fiscal year.

Business-type Activities:

The total business-type revenue is reported at \$1,182,517, a decrease of \$302,097 from the prior fiscal year. Total expenses decreased by \$267,405 from the prior fiscal year.

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

The following table shows the comparison of the change in net position in a condensed format for the fiscal year ended June 30, 2018 and June 30, 2017:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues						
Charges for services	\$ 392,298	\$ 330,653	\$ 1,153,649	\$ 1,169,686	\$ 1,545,947	\$ 1,500,339
Operating grants	592,676	524,074	23,564	312,093	616,240	836,167
General revenues						
Property taxes	608,053	638,024	-	-	608,053	638,024
Franchise fees	13,004	10,438	-	-	13,004	10,438
Unrestricted grants	414,595	381,630	-	-	414,595	381,630
Investment earnings	9,095	6,449	5,304	2,835	14,399	9,284
Other	8,814	9,383	-	-	8,814	9,383
Total revenues	<u>2,043,535</u>	<u>1,900,651</u>	<u>1,182,517</u>	<u>1,484,614</u>	<u>3,226,052</u>	<u>3,385,265</u>
Program Expenses:						
General government	399,505	364,626	-	-	399,505	364,626
Public safety	642,955	621,924	-	-	642,955	621,924
Public works	815,715	809,460	-	-	815,715	809,460
Health and welfare	21,576	21,576	-	-	21,576	21,576
Community and economic development	17,604	2,160	-	-	17,604	2,160
Recreation and culture	97,106	175,322	-	-	97,106	175,322
Interest on long-term debt	15,370	17,218	-	-	15,370	17,218
Sewer	-	-	834,978	1,104,563	834,978	1,104,563
Water	-	-	405,335	403,155	405,335	403,155
Total program expenses	<u>2,009,831</u>	<u>2,012,286</u>	<u>1,240,313</u>	<u>1,507,718</u>	<u>3,250,144</u>	<u>3,520,004</u>
Increase (decrease) in net position before other	<u>33,704</u>	<u>(111,635)</u>	<u>(57,796)</u>	<u>(23,104)</u>	<u>(24,092)</u>	<u>(134,739)</u>
Other items:						
Contributions to principal	1,250	1,600	-	-	1,250	1,600
Sale of capital assets	4,706	-	-	-	4,706	-
Total other items	<u>5,956</u>	<u>1,600</u>	<u>-</u>	<u>-</u>	<u>5,956</u>	<u>1,600</u>
Change in net position	39,660	(110,035)	(57,796)	(23,104)	(18,136)	(133,139)
Net position, beginning of year	<u>3,308,494</u> *	<u>3,745,966</u>	<u>5,645,699</u> *	<u>5,825,759</u>	<u>8,954,193</u>	<u>9,571,725</u>
Net position, end of year	<u>\$ 3,348,154</u>	<u>\$ 3,635,931</u>	<u>\$ 5,587,903</u>	<u>\$ 5,802,655</u>	<u>\$ 8,936,057</u>	<u>\$ 9,438,586</u>

* Restated for GASB Statement No. 75. See Note 13

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

THE CITY OF VASSAR'S FUNDS:

Presentation of the City of Vassar's major funds and aggregate nonmajor funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and one of three governmental funds that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended June 30, 2018, General Fund financing sources exceeded its financing uses by \$154,244, increasing its ending fund balance to \$1,203,528. The City's second major governmental fund, the Major Street Fund increased its ending fund balance by \$64,354.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected a net increase in fund balance of \$20,976. During the year, the City made budget amendments which changed the projection to a net increase in fund balance of \$61,349. The actual results for the year yielded an increase in fund balance of \$154,244.

Capital Assets and Debt Administration:

At June 30, 2018, the City of Vassar had \$9,038,473 invested in a range of capital assets including land, buildings and improvements, furniture and equipment, equipment, vehicles, water and sewer systems, streets, and other infrastructure, net of accumulated depreciation. At June 30, 2017, this total was \$9,442,375. Additional information about the City's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

At June 30, 2018, the City of Vassar's total long-term indebtedness (not including compensated absences, net pension liability and net OPEB liability) was \$1,100,670, which was backed by the full faith and credit of the City. Additional information about the City's indebtedness is presented in Note 6 of the Notes to the Financial Statements.

Future Economic Factors:

While the City of Vassar's economic future is dependent upon factors that are beyond control of the City Council and City management, the economic condition of the City is slightly improving. Most locally derived revenue sources are stable or increasing slightly. The City will continue to monitor its budget closely.

Contacting the City's Financial Management:

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. If you have questions about this report or need additional financial information, contact Vassar City Hall, 287 E. Huron Avenue, Vassar, MI 48768.

BASIC FINANCIAL STATEMENTS

CITY OF VASSAR

STATEMENT OF NET POSITION

June 30, 2018

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 1,767,254	\$ 2,286,601	\$ 4,053,855	\$ 101,294
Receivables	196,923	324,399	521,322	107,927
Inventory	9,483	-	9,483	-
Prepaid expenses	45,319	7,082	52,401	-
Restricted cash and cash equivalents	-	15,835	15,835	-
Capital assets not being depreciated	563,616	43,009	606,625	52,663
Capital assets being depreciated, net	3,320,073	5,111,775	8,431,848	-
Total assets	5,902,668	7,788,701	13,691,369	261,884
Deferred outflows of resources:				
Related to pension	56,764	37,844	94,608	-
Related to OPEB	45,967	22,641	68,608	-
Total deferred outflows of resources	102,731	60,485	163,216	-
Liabilities:				
Accounts payable and accrued expenses	72,953	36,456	109,409	-
Unearned revenue	5,000	-	5,000	-
Long-term liabilities:				
Due within one year				
Current portion of long-term debt	34,341	74,000	108,341	-
Due in more than one year				
Compensated absences	41,320	15,919	57,239	-
Long-term debt	240,329	752,000	992,329	-
Net pension liability	1,655,481	1,074,484	2,729,965	-
Net OPEB liability	564,545	278,059	842,604	-
Total liabilities	2,613,969	2,230,918	4,844,887	-
Deferred inflows of resources:				
Related to pension	40,851	29,170	70,021	-
Related to OPEB	2,425	1,195	3,620	-
Total deferred inflows of resources	43,276	30,365	73,641	-
Net position:				
Net investment in capital assets	3,883,689	4,328,784	8,212,473	52,663
Restricted for:				
Drug law enforcement	20	-	20	-
Community development	19,743	-	19,743	-
Fire protection services	131,878	-	131,878	-
Nonexpendable cemetery principal	136,609	-	136,609	-
Repair, replacement and improvement	-	15,835	15,835	-
Street lighting	1,752	-	1,752	-
Streets	451,190	-	451,190	-
Unrestricted (deficit)	(1,276,727)	1,243,284	(33,443)	209,221
Total net position	\$ 3,348,154	\$ 5,587,903	\$ 8,936,057	\$ 261,884

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

CITY OF VASSAR

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 399,505	\$ 104,183	\$ 21,248	\$ 5,000	\$ (269,074)
Public safety	642,955	51,746	87,770	-	(503,439)
Public works	815,715	206,167	425,403	-	(184,145)
Health and welfare	21,576	21,701	-	-	125
Community and economic development	17,604	-	-	-	(17,604)
Recreation and culture	97,106	8,501	58,255	-	(30,350)
Interest on long-term debt	15,370	-	-	-	(15,370)
Total governmental activities	<u>2,009,831</u>	<u>392,298</u>	<u>592,676</u>	<u>5,000</u>	<u>(1,019,857)</u>
<i>Business-type activities:</i>					
Sewer	834,978	741,027	18,560	-	(75,391)
Water	405,335	412,622	5,004	-	12,291
Total business-type activities	<u>1,240,313</u>	<u>1,153,649</u>	<u>23,564</u>	<u>-</u>	<u>(63,100)</u>
Total primary government	<u>\$3,250,144</u>	<u>\$ 1,545,947</u>	<u>\$ 616,240</u>	<u>\$ 5,000</u>	<u>\$(1,082,957)</u>
COMPONENT UNITS:					
Economic development corporation	\$ 24,810	\$ -	\$ -	\$ -	\$ (24,810)
Downtown development authority	13,399	-	-	-	(13,399)
Total component units	<u>\$ 38,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (38,209)</u>

continued

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

CITY OF VASSAR

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended June 30, 2018

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (1,019,857)	\$ (63,100)	\$ (1,082,957)	\$ (38,209)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	597,288	-	597,288	-
Property taxes, captured by component units	-	-	-	34,259
Payment in lieu of property taxes	10,765	-	10,765	-
Franchise fees	13,004	-	13,004	-
Grants and contributions not restricted to specific programs	414,595	-	414,595	-
Unrestricted investment earnings	9,095	5,304	14,399	53
Other	8,814	-	8,814	6,451
Contributions to principal of permanent fund	1,250	-	1,250	-
Special item - Sale of capital assets	4,706	-	4,706	-
Total general revenues, contributions to principal and special item	1,059,517	5,304	1,064,821	40,763
Changes in net position	39,660	(57,796)	(18,136)	2,554
Net position, beginning of year, restated	3,308,494	5,645,699	8,954,193	259,330
Net position, end of year	<u>\$ 3,348,154</u>	<u>\$ 5,587,903</u>	<u>\$ 8,936,057</u>	<u>\$ 261,884</u>

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

CITY OF VASSAR

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2018

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	\$ 1,147,776	\$ 241,900	\$ 377,578	\$ 1,767,254
Accounts receivable	7,335	-	400	7,735
Special assessments receivable	-	-	187	187
Notes receivable	-	-	3,304	3,304
Due from other governments	56,541	73,944	55,212	185,697
Due from other funds	2,408	-	-	2,408
Inventory	9,483	-	-	9,483
Prepaid expenditures	37,844	1,752	5,723	45,319
	<u>\$ 1,261,387</u>	<u>\$ 317,596</u>	<u>\$ 442,404</u>	<u>\$ 2,021,387</u>
Total assets				
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 57,839	\$ 1,551	\$ 5,022	\$ 64,412
Due to other funds	-	-	2,408	2,408
Deposits payable	20	-	-	20
Unearned revenue	-	-	5,000	5,000
	<u>57,859</u>	<u>1,551</u>	<u>12,430</u>	<u>71,840</u>
Total liabilities				
Fund balances:				
Nonspendable	47,327	1,752	141,436	190,515
Restricted	1,752	314,293	288,538	604,583
Assigned	362,139	-	-	362,139
Unassigned	792,310	-	-	792,310
	<u>1,203,528</u>	<u>316,045</u>	<u>429,974</u>	<u>1,949,547</u>
Total fund balances				
Total liabilities and fund balances				
	<u>\$ 1,261,387</u>	<u>\$ 317,596</u>	<u>\$ 442,404</u>	<u>\$ 2,021,387</u>

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

CITY OF VASSAR

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

June 30, 2018

Fund balances of governmental funds	\$ 1,949,547
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
Capital assets not being depreciated	563,616
Capital assets being depreciated, net	3,320,073
Accrued interest is not due and payable in the current period and is not reported in the funds.	(8,521)
Deferred outflows of resources from City contributions made after the measurement date of the net pension liability are not reported in the funds.	56,764
Deferred outflows of resources from changes in actuarial assumptions of the net OPEB liability are not reported in the funds.	45,967
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences payable	(41,320)
Long-term debt	(274,670)
Net pension liability	(1,655,481)
Net OPEB liability	(564,545)
Deferred inflows of resources from the difference between projected and actual investment earnings of the pension plan are not reported in the funds.	(40,851)
Deferred inflows of resources from the difference between projected and actual investment earnings of the OPEB plan as well as experience gains are not reported in the funds.	<u>(2,425)</u>
Net position of governmental activities	<u><u>\$ 3,348,154</u></u>

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

CITY OF VASSAR

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2018

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$ 634,986	\$ -	\$ -	\$ 634,986
Special assessments	8,848	-	1	8,849
Licenses and permits	23,984	-	-	23,984
State grants	417,721	250,775	118,294	786,790
Contributions from other units	14,200	37,612	90,822	142,634
Charges for services	273,541	-	39,625	313,166
Fines and forfeits	2,724	-	-	2,724
Interest and rents	108,518	62	2,593	111,173
Other revenue	75,465	-	17,405	92,870
Total revenues	<u>1,559,987</u>	<u>288,449</u>	<u>268,740</u>	<u>2,117,176</u>
Expenditures:				
Current				
General government	351,136	-	-	351,136
Public safety	441,781	-	104,097	545,878
Public works	360,100	164,095	223,339	747,534
Health and welfare	21,576	-	-	21,576
Community and economic development	8,218	-	9,386	17,604
Recreation and culture	76,245	-	-	76,245
Capital outlay	69,486	-	11,634	81,120
Debt service				
Principal	34,340	-	-	34,340
Interest and fees	16,436	-	-	16,436
Total expenditures	<u>1,379,318</u>	<u>164,095</u>	<u>348,456</u>	<u>1,891,869</u>
Excess (deficiency) of revenues over expenditures	<u>180,669</u>	<u>124,354</u>	<u>(79,716)</u>	<u>225,307</u>
Other financing sources (uses):				
Interfund transfers in	2,408	-	88,833	91,241
Interfund transfers out	<u>(28,833)</u>	<u>(60,000)</u>	<u>(2,408)</u>	<u>(91,241)</u>
Net other financing sources (uses)	<u>(26,425)</u>	<u>(60,000)</u>	<u>86,425</u>	<u>-</u>
Changes in fund balances	154,244	64,354	6,709	225,307
Fund balances, beginning of year	<u>1,049,284</u>	<u>251,691</u>	<u>423,265</u>	<u>1,724,240</u>
Fund balances, end of year	<u>\$ 1,203,528</u>	<u>\$ 316,045</u>	<u>\$ 429,974</u>	<u>\$ 1,949,547</u>

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

CITY OF VASSAR

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Changes in fund balances of governmental funds \$ 225,307

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Purchases of capital assets	58,248
Depreciation expense	(145,122)

Some 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.

Change in accrued interest payable	1,066
Change in compensated absences payable	(1,823)
Change in long-term debt	62,670
Change in net pension liability and related deferred outflows and deferred inflows	(64,586)
Change in net OPEB liability and related deferred outflows and deferred inflows	<u>(96,100)</u>

Change in net position of governmental activities \$ 39,660

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

CITY OF VASSAR

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2018

	<u><i>Sewer Fund</i></u>	<u><i>Water Fund</i></u>	<u><i>Total</i></u>
Assets:			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 1,112,352	\$ 1,174,249	\$ 2,286,601
Accounts receivable	145,271	77,784	223,055
Special assessments receivable	616	1,143	1,759
Due from other governments	99,585	-	99,585
Prepaid expenses	4,512	2,570	7,082
Total current assets	<u>1,362,336</u>	<u>1,255,746</u>	<u>2,618,082</u>
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents			
USDA RRI reserve	15,835	-	15,835
Capital assets not being depreciated	33,422	9,587	43,009
Capital assets being depreciated, net	3,450,984	1,660,791	5,111,775
Total noncurrent assets	<u>3,500,241</u>	<u>1,670,378</u>	<u>5,170,619</u>
Total assets	<u>4,862,577</u>	<u>2,926,124</u>	<u>7,788,701</u>
Deferred outflows of resources:			
Related to pension	18,922	18,922	37,844
Related to OPEB	11,663	10,978	22,641
Total deferred outflows of resources	<u>30,585</u>	<u>29,900</u>	<u>60,485</u>
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	22,632	9,336	31,968
Accrued interest payable	3,851	637	4,488
Bonds payable - current	47,404	26,596	74,000
Total current liabilities	<u>73,887</u>	<u>36,569</u>	<u>110,456</u>
<i>Noncurrent liabilities:</i>			
Compensated absences payable	13,344	2,575	15,919
Bonds payable	662,184	89,816	752,000
Net pension liability	532,889	541,595	1,074,484
Net OPEB liability	143,242	134,817	278,059
Total noncurrent liabilities	<u>1,351,659</u>	<u>768,803</u>	<u>2,120,462</u>
Total liabilities	<u>1,425,546</u>	<u>805,372</u>	<u>2,230,918</u>

continued

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

CITY OF VASSAR

PROPRIETARY FUNDS
STATEMENT OF NET POSITION, CONTINUED

June 30, 2018

	<u><i>Sewer Fund</i></u>	<u><i>Water Fund</i></u>	<u><i>Total</i></u>
Deferred inflows of resources:			
Related to pension	14,874	14,296	29,170
Related to OPEB	<u>615</u>	<u>580</u>	<u>1,195</u>
Total deferred inflows of resources	<u>15,489</u>	<u>14,876</u>	<u>30,365</u>
Net position:			
Net investment in capital assets	2,774,818	1,553,966	4,328,784
Restricted for:			
Repair, replacement and improvement	15,835	-	15,835
Unrestricted	<u>661,474</u>	<u>581,810</u>	<u>1,243,284</u>
Total net position	<u>\$ 3,452,127</u>	<u>\$ 2,135,776</u>	<u>\$ 5,587,903</u>

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

CITY OF VASSAR

PROPRIETARY FUNDS
**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION**

Year Ended June 30, 2018

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services			
Sales	\$ 728,307	\$ 395,950	\$ 1,124,257
Penalties	-	14,517	14,517
Other	12,720	2,155	14,875
State grants	<u>18,557</u>	<u>4,998</u>	<u>23,555</u>
Total operating revenues	<u>759,584</u>	<u>417,620</u>	<u>1,177,204</u>
Operating expenses:			
Salaries and fringe benefits	274,330	175,621	449,951
Supplies	18,631	17,335	35,966
Contracted services	29,896	12,182	42,078
Administrative expense	28,000	28,000	56,000
Other services and charges	199,594	82,218	281,812
Depreciation	<u>260,540</u>	<u>80,865</u>	<u>341,405</u>
Total operating expenses	<u>810,991</u>	<u>396,221</u>	<u>1,207,212</u>
Operating income (loss)	<u>(51,407)</u>	<u>21,399</u>	<u>(30,008)</u>
Non-operating revenues (expenses):			
Interest income	736	4,568	5,304
Special assessments interest	3	6	9
Interest expense	(15,855)	(2,828)	(18,683)
Amortization expense	<u>(8,132)</u>	<u>(6,286)</u>	<u>(14,418)</u>
Net non-operating revenues	<u>(23,248)</u>	<u>(4,540)</u>	<u>(27,788)</u>
Changes in fund net position	(74,655)	16,859	(57,796)
Net position, beginning of year, restated	<u>3,526,782</u>	<u>2,118,917</u>	<u>5,645,699</u>
Net position, end of year	<u>\$ 3,452,127</u>	<u>\$ 2,135,776</u>	<u>\$ 5,587,903</u>

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

CITY OF VASSAR

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	<u><i>Sewer Fund</i></u>	<u><i>Water Fund</i></u>	<u><i>Total</i></u>
Cash flows from operating activities:			
Receipts from customers	\$ 744,517	\$ 388,945	\$ 1,133,462
Receipts from state grants	-	4,998	4,998
Payments to and on behalf of employees	(227,052)	(131,642)	(358,694)
Payments to suppliers	(305,637)	(136,017)	(441,654)
Net cash provided (used) by operating activities	<u>211,828</u>	<u>126,284</u>	<u>338,112</u>
Cash flows from capital and related financing activities:			
Special assessments	621	1,155	1,776
Acquisition of capital assets	(12,189)	(12,188)	(24,377)
Principal payments	(79,404)	(26,596)	(106,000)
Interest paid	(16,566)	(2,974)	(19,540)
Net cash provided (used) by capital and related financing activities	<u>(107,538)</u>	<u>(40,603)</u>	<u>(148,141)</u>
Cash flows from investing activities:			
Interest received	<u>736</u>	<u>4,568</u>	<u>5,304</u>
Net increase in cash and cash equivalents	105,026	90,249	195,275
Cash and cash equivalents, beginning of year	<u>1,023,161</u>	<u>1,084,000</u>	<u>2,107,161</u>
Cash and cash equivalents, end of year	<u>\$ 1,128,187</u>	<u>\$ 1,174,249</u>	<u>\$ 2,302,436</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (51,407)	\$ 21,399	\$ (30,008)
Adjustments:			
Depreciation	260,540	80,865	341,405
Change in assets and liabilities:			
Accounts receivable	3,490	(23,677)	(20,187)
Due from other governments	(18,557)	-	(18,557)
Prepaid expenses	(1,048)	(788)	(1,836)
Accounts payable	(28,468)	4,506	(23,962)
Compensated absences payable	1,367	(498)	869
Net pension liability and related deferred outflows and deferred inflows	21,528	21,528	43,056
Net OPEB liability and related deferred outflows and deferred inflows	<u>24,383</u>	<u>22,949</u>	<u>47,332</u>
Net cash provided (used) by operating activities	<u>\$ 211,828</u>	<u>\$ 126,284</u>	<u>\$ 338,112</u>

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

CITY OF VASSAR

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
June 30, 2018

	<i>Retiree Health Plan OPEB Trust Fund</i>	<i>Agency Funds</i>
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ -	\$ 33,048
Investments	110,576	-
Total assets	<u>110,576</u>	<u>\$ 33,048</u>
Liabilities:		
Accounts payable	<u>-</u>	<u>\$ 33,048</u>
Net position:		
Held in trust	<u>110,576</u>	
Total net position	<u>\$ 110,576</u>	

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

CITY OF VASSAR

FIDUCIARY FUNDS
**STATEMENT OF CHANGES IN FIDUCIARY
FUND NET POSITION**

Year Ended June 30, 2018

	<i>Retiree Health Plan OPEB Trust Fund</i>
Additions:	
Employer contributions	\$ 15,000
Investment income	<u>5,303</u>
Total additions	<u>20,303</u>
Deductions:	
Administrative fees	<u>260</u>
Net increase	20,043
Net position, beginning of year	<u>90,533</u>
Net position, end of year	<u>\$ 110,576</u>

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

CITY OF VASSAR

COMPONENT UNITS
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total</u></i>
Assets:			
Cash and cash equivalents	\$ 56,690	\$ 44,604	\$ 101,294
Notes receivable	107,927	-	107,927
Capital assets not being depreciated	-	52,663	52,663
Total assets	<u>164,617</u>	<u>97,267</u>	<u>261,884</u>
Net position:			
Investment in capital assets	-	52,663	52,663
Unrestricted	164,617	44,604	209,221
Total net position	<u>\$ 164,617</u>	<u>\$ 97,267</u>	<u>\$ 261,884</u>

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

CITY OF VASSAR

RECONCILIATION OF FUND BALANCES OF COMPONENT UNITS TO NET POSITION OF COMPONENT UNITS

June 30, 2018

Fund balances of component units \$ 209,221

Amounts reported for components units activities in the statement of net position are different because:

Capital assets used in component units activities are not financial resources and are not reported in the funds.

Capital assets not being depreciated 52,663

Net position of component units \$ 261,884

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

CITY OF VASSAR

COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total</u></i>
Revenues:			
General revenues:			
Property taxes	\$ 19,059	\$ 15,200	\$ 34,259
Interest and rents	38	15	53
Other	<u>3,973</u>	<u>2,478</u>	<u>6,451</u>
Total revenues	<u>23,070</u>	<u>17,693</u>	<u>40,763</u>
Expenses:			
Community and economic development	<u>13,399</u>	<u>24,810</u>	<u>38,209</u>
Change in net position	9,671	(7,117)	2,554
Net position, beginning of year	<u>154,946</u>	<u>104,384</u>	<u>259,330</u>
Net position, end of year	<u>\$ 164,617</u>	<u>\$ 97,267</u>	<u>\$ 261,884</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used by the City of Vassar, (the “City”):

Reporting Entity:

The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a five member City Council elected by the community at large. The accompanying financial statements present the City and its component units, entities for which the City is considered financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Units:

Economic Development Corporation – The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The members are appointed by the City Council.

Downtown Development Authority – The Downtown Development Authority’s members are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Accounting and Reporting Principles:

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation:

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as 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 statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's sewer and water functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are not included in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Basis of Accounting:

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

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

Fund Accounting:

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

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the following funds as “major” governmental funds:

General Fund is the City's primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.

Special Revenue Fund – Major Street Fund accounts for the expenditures associated with the maintenance and construction needs of the major street portion of the City's street network.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The City reports the following as “major” enterprise funds:

Enterprise Fund – Sewer Fund accounts for the operations of the City’s sewage collection system.

Enterprise Fund – Water Fund accounts for the operations of the City’s water distribution system.

Fiduciary funds include amounts held in fiduciary capacity for others. These amounts will not be used to operate the City’s own programs. Activities that are reported as fiduciary include:

Retiree OPEB Plan Trust was established in compliance with Public Act 149 of 1999 and accounts for the accumulated resources which have been set aside to fund postemployment healthcare costs.

Agency Fund accounts for assets held by the City as an agent for individuals, organizations, other governmental units, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Specific Balances and Transactions:

Cash, Cash Equivalents and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents. The investment policy adopted by the City Council is in accordance with Public Act 20 of 1943, as amended. The City’s deposits and investments have been made in accordance with statutory authority.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of salt in the General Fund are recorded as expenditures when consumed rather than when purchased. Other materials are recorded as expenditures/expenses when purchased rather than when consumed.

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

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items) are reported in the applicable governmental activities or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$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. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Distribution systems	10-50 years
Equipment	5-25 years
Furniture and other equipment	3-15 years
Infrastructure	20-50 years
Vehicles	3-25 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The General Fund, Sewer Fund, Water Fund, and debt service funds are generally used to liquidate long-term debt.

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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category, which are deferred outflows of resources related to bond refunding costs and deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources are reported in the government-wide financial statements, the Sewer Fund and the Water Fund. The deferred outflows of resources related to the defined benefit pension plan result from two transactions: contributions to the defined benefit pension plan subsequent to the plan's year end through the City's fiscal year end and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting and therefore is reported only in the governmental funds.

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

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. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

Other classifications of fund balance include: nonspendable fund balance, which are amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact; restricted fund balance, which are amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates); and unassigned fund balance, which are amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. However, unassigned balances also include negative balances in other governmental funds.

Property Taxes – Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. The property taxes become a lien on July 1 and are due without penalty on or before July 31. The City's 2017 tax is levied and collectible on July 1, 2017 and is recognized as revenue in the year ended June 30, 2018, when the proceeds of the levy are budgeted and available for the financing of operations. The 2017 taxable valuation of the City totaled \$38,922,070 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 16.0000 mills for the City's operating purposes.

Compensated Absences (Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick days and to pay employees for those days upon termination or resignation per established policies. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Other Postemployment Benefit Costs (OPEB) –For purposes of measuring the net 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 City of Vassar Retiree Health Care Plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the City of Vassar. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Proprietary Funds Operating Classification – Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds is charges to customers for sales and services. The proprietary funds also recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system and as nonoperating revenues rental income and investment income. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not included in these classifications are reported as nonoperating.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Activity:

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

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets for all governmental funds are adopted in compliance with Michigan Law. The budgets are prepared on the modified accrual basis, which is consistent with generally accepted accounting principles. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the function level for the general fund and special revenue funds. The City does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at the end of the fiscal year and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

Excess of Expenditures over Appropriations in Budgeted Funds:

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

	<i>Final Budget</i>	<i>Actual</i>	<i>Actual Over Final Budget</i>
General Fund:			
Current			
Public works			
Department of public works	\$ 85,581	\$ 87,804	\$ 2,223
Street lighting	66,850	67,791	941
Refuse	140,900	152,439	11,539
Recreation and culture			
Band	1,500	1,652	152
Capital outlay			
General government			
Hall	24,051	36,977	12,926
Debt service			
Interest and fees	16,434	16,436	2
Other financing use			
Interfund transfers out	25,525	28,833	3,308

NOTE 3: DEPOSITS AND INVESTMENTS

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

Custodial Credit Risk of Bank Deposits is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a deposit policy for custodial credit risk. At year-end, the City and its component units had \$4,496,103 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$519,936 was covered by federal depository insurance (FDIC) and the remainder was uninsured and uncollateralized.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

The City believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments 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. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Trust Fund for OPEB:		
Mutual fund - Equities and other	\$ 110,576	Counterparty

Credit Risk – As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Trust Fund for OPEB:			
Mutual fund - Equities and other	\$ 110,576	Not Rated	N/A

NOTE 4: BOND RESERVES

The City ordinance that authorized issuance of the Sewer Fund's 2013 Limited Tax General Obligation Capital Improvement Bond requires that a Repair, Replacement and Improvement Account (the "RRI" Account) be established and funded as follows:

Repair, Replacement, and Improvement Account – The City shall deposit \$3,167 to the RRI Account and the moneys shall be used and disbursed only for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the sanitary sewer collection system, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the sanitary sewer collection system, (c) acquiring and constructing extensions and improvements to the sanitary sewer collection system and (d) when necessary, for the purpose of making payment of principal and interest on the Bond.

At June 30, 2018, the City's Sewer Fund had restricted cash and cash equivalents of \$15,835 for the RRI Account.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 554,654	\$ 8,962	\$ -	\$ 563,616
Capital assets being depreciated:				
Buildings and improvements	1,326,668	-	-	1,326,668
Equipment	1,020,434	12,888	(6,975)	1,026,347
Furniture and equipment	103,961	26,298	-	130,259
Infrastructure	3,507,154	-	(6,699)	3,500,455
Vehicles	689,180	10,100	(24,592)	674,688
Total capital assets being depreciated	<u>6,647,397</u>	<u>49,286</u>	<u>(38,266)</u>	<u>6,658,417</u>
Less accumulated depreciation for:				
Buildings and improvements	(835,502)	(23,030)	-	(858,532)
Equipment	(929,476)	(21,126)	6,975	(943,627)
Furniture and equipment	(53,587)	(11,436)	-	(65,023)
Infrastructure	(862,993)	(72,836)	6,699	(929,130)
Vehicles	(549,930)	(16,694)	24,592	(542,032)
Total accumulated depreciation	<u>(3,231,488)</u>	<u>(145,122)</u>	<u>38,266</u>	<u>(3,338,344)</u>
Capital assets being depreciated, net	<u>3,415,909</u>	<u>(95,836)</u>	<u>-</u>	<u>3,320,073</u>
Governmental activities, capital assets, net	<u>\$ 3,970,563</u>	<u>\$ (86,874)</u>	<u>\$ -</u>	<u>\$ 3,883,689</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 43,009	\$ -	\$ -	\$ 43,009
Capital assets being depreciated:				
Equipment	628,961	4,177	-	633,138
Land improvements	9,412	-	-	9,412
Sewer lines	2,012,772	-	-	2,012,772
Sewer treatment plant	7,856,724	-	-	7,856,724
Vehicles	-	20,200	-	20,200
Water buildings, tank and tower	688,477	-	-	688,477
Water mains and wells	2,772,319	-	-	2,772,319
Total capital assets being depreciated	<u>13,968,665</u>	<u>24,377</u>	<u>-</u>	<u>13,993,042</u>

continued

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 5: CAPITAL ASSETS, CONTINUED

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Less accumulated depreciation for:				
Equipment	(441,226)	(18,899)	-	(460,125)
Land improvements	(9,412)	-	-	(9,412)
Sewer lines	(805,587)	(40,255)	-	(845,842)
Sewer treatment plant	(5,499,271)	(207,959)	-	(5,707,230)
Vehicles	-	(1,684)	-	(1,684)
Water buildings, tank and tower	(347,460)	(21,020)	-	(368,480)
Water mains and wells	(1,436,906)	(51,588)	-	(1,488,494)
Total accumulated depreciation	<u>(8,539,862)</u>	<u>(341,405)</u>	<u>-</u>	<u>(8,881,267)</u>
Capital assets being depreciated, net	<u>5,428,803</u>	<u>(317,028)</u>	<u>-</u>	<u>5,111,775</u>
Business-type activities, capital assets, net	<u>\$ 5,471,812</u>	<u>\$ (317,028)</u>	<u>\$ -</u>	<u>\$ 5,154,784</u>
Component units:				
Capital assets not being depreciated:				
Land	<u>\$ 52,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,663</u>

Depreciation expense was charged to programs of the governmental and business-type activities as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General government	\$ 15,685	\$ -
Public safety	22,898	-
Public works	85,678	-
Recreation and culture	20,861	-
Sewer	-	260,540
Water	-	80,865
	<u>\$ 145,122</u>	<u>\$ 341,405</u>

NOTE 6: LONG-TERM DEBT

The City may issue bonds, loans, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and County contracts are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6: LONG-TERM DEBT, CONTINUED

The following is a summary of long-term liabilities transactions for the year ended June 30, 2018:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes and Agreements:					
2006 County Contract Financing, due in annual amounts of \$34,341 plus interest at 4.25-5.317% through 2026.	\$ 309,010	\$ -	\$ (34,340)	\$ 274,670	\$ 34,341
2016 Contract Payable, due in annual amount of \$28,330 with no interest through 2017.	28,330	-	(28,330)	-	-
Other Liabilities:					
Compensated absences	39,497	3,005	(1,182)	41,320	-
Total governmental activities - long-term liabilities	<u>\$ 376,837</u>	<u>\$ 3,005</u>	<u>\$ (63,852)</u>	<u>\$ 315,990</u>	<u>\$ 34,341</u>
Business-type activities:					
Bonds Payable:					
2012 Limited Tax General Obligation Refunding Bonds, due in annual amounts ranging from \$61,000 to \$84,000 plus interest at 2.19% through 2022.	\$ 328,000	\$ -	\$ (61,000)	\$ 267,000	\$ 61,000
2013 Limited Tax General Obligation Capital Improvement Bond, due in annual amounts ranging from \$8,000 to \$25,000 plus interest at 2.125% through 2051.	604,000	-	(45,000)	559,000	13,000
Other Liabilities:					
Compensated absences	15,050	2,051	(1,182)	15,919	-
Total business-type activities - long-term liabilities	<u>\$ 947,050</u>	<u>\$ 2,051</u>	<u>\$ (107,182)</u>	<u>\$ 841,919</u>	<u>\$ 74,000</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 6: LONG-TERM LIABILITIES, CONTINUED

Annual debt service requirements to maturity for all outstanding debt (excluding other liabilities) as of June 30, 2018 are as follows:

<i>Year Ended</i> <i>June 30,</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2019	\$ 34,341	\$ 14,608	\$ 48,949	\$ 74,000	\$ 17,362	\$ 91,362
2020	34,341	10,217	44,558	75,000	15,626	90,626
2021	34,341	8,781	43,122	75,000	13,993	88,993
2022	34,341	7,298	41,639	98,000	12,239	110,239
2023	34,341	5,838	40,179	14,000	10,561	24,561
2024-2028	102,965	8,766	111,731	77,000	48,036	125,036
2029-2033	-	-	-	86,000	39,420	125,420
2034-2038	-	-	-	95,000	29,781	124,781
2039-2043	-	-	-	106,000	19,126	125,126
2044-2048	-	-	-	118,000	7,226	125,226
2049	-	-	-	8,000	85	8,085
	<u>\$ 274,670</u>	<u>\$ 55,508</u>	<u>\$ 330,178</u>	<u>\$ 826,000</u>	<u>\$ 213,455</u>	<u>\$ 1,039,455</u>

NOTE 7: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2018 is as follows:

<i>Receivable Fund</i>	<i>Payable Fund</i>	<i>Amount</i>
General Fund	Cemetery Perpetual Care Fund	<u>\$ 2,408</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations, which is the reason for the transfers from the General Fund to the other governmental funds.

Interfund transfers reported in the fund statements were as follows:

<i>Interfund Transfers From</i>	<i>Interfund Transfers To</i>	<i>Amount</i>
General Fund	Local Street Fund	\$ 23,525
General Fund	Cool Cities Fund	5,308
Major Street Fund	Local Street Fund	60,000
Cemetery Perpetual Care Fund	General Fund	<u>2,408</u>
		<u>\$ 91,241</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total Primary Government</i>	<i>Component Units</i>
Receivables:				
Accounts receivable	\$ 7,735	\$ 223,055	\$ 230,790	\$ -
Special assessments receivable	187	1,759	1,946	-
Notes/Loans receivable				
Current portion	600	-	600	16,932
Long-term portion	2,704	-	2,704	90,995
Intergovernmental	<u>185,697</u>	<u>99,585</u>	<u>285,282</u>	<u>-</u>
Total receivables	<u>\$ 196,923</u>	<u>\$ 324,399</u>	<u>\$ 521,322</u>	<u>\$ 107,927</u>
Accounts payable and accrued expenses:				
Accounts payable	\$ 64,412	\$ 31,968	\$ 96,380	\$ -
Deposits payable	20	-	20	-
Accrued interest payable	<u>8,521</u>	<u>4,488</u>	<u>13,009</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 72,953</u>	<u>\$ 36,456</u>	<u>\$ 109,409</u>	<u>\$ -</u>

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its workers' compensation insurance by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the 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. The City obtains its general liability insurance coverage through Michigan Township Participating Plan.

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS

The City has two employee pension plans. One plan is a Defined Benefit Plan and the other plan is a Defined Contribution Plan, both administered by the MERS Retirement Board, of the Municipal Employee's Retirement System of Michigan (MERS). Information concerning each plan follows:

Defined Contribution Pension Plan (Municipal Employees' Retirement System of Michigan):

The City adopted MERS Restated Defined Contribution Plan under MERS Plan Document ("MERS Defined Contribution Plan") for all new employees of the City hired after July 1, 2012. The plan was implemented in September 2014 and is the only retirement pension plan available to new employees after that date.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

The City's Defined Contribution Pension Plan is a single employer defined contribution pension plan, established by the City and administered by the MERS Retirement Board. The City's contribution is 10% of each participant's base wages for the plan year contingent upon the participant contributing 5% of base wages. Contributions are immediately 100% vested. City contributions for the plan were \$38,116 and employee contributions for the plan were \$19,058 for the year ended June 30, 2018.

Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan):

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, if any, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan 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 when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description – The City'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 accessing the MERS website at www.mersofmich.com.

Benefits Provided – The following are the benefits provided from the December 31, 2017 valuation. All divisions are closed.

	<u>Division 01 - Gnrl Non Union / Police Chief</u>	<u>Division 10 - Gnrl Union</u>	<u>Division 20 - Pol POAM</u>
Benefit Multiplier:	2.00% Multiplier (no max)	2.00% Multiplier (no max)	2.00% Multiplier (no max)
Normal Retirement Age:	60	60	55
Vesting:	10 years	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25	20 and Out
Early Retirement (Reduced):	50/25 55/15	50/25 55/15	
Final Average Compensation:	3 years	3 years	3 years
COLA for Future Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)	2.50% (Non-Compound)
COLA for Current Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)	2.50% (Non-Compound)
Employee Contributions:	4.70%	4.70%	4.80%
DC Plan for New Hires:	7/1/2012	7/1/2012	7/1/2012
Act 88:	Yes (Adopted 11/23/1970)	Yes (Adopted 11/23/1970)	Yes (Adopted 11/23/1970)

Employees covered by benefit terms – At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>5</u>
Total	<u><u>41</u></u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. 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.

City contributions, for the current year, were \$15,768 monthly based on valuation payroll as of the December 31, 2015 valuation. The monthly amount by division was: division 01 - \$9,301, division 10 - \$4,509, and division 20 - \$1,958. Employee contribution percentage for divisions 01 and 10 is 4.7% and for division 20 is 4.8%.

Net Pension Liability – The City’s net pension liability reported at June 30, 2018 was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 2.5%; Salary Increases: 3.75% in the long-term; Investment rate of return: 7.75%, net of investment and administrative expenses including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Discount rate – The discount rate used to measure the total pension liability is 8%. The projection of cash flows used to determine the discount rate assumes that City and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for the City. 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. Changes in the net pension liability during the measurement year were as follows:

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/16	\$ 7,255,206	\$ 4,392,762	\$ 2,862,444
Service cost	37,655	-	37,655
Interest on total pension liability	560,638	-	560,638
Difference between expected and actual experience	10,385	-	10,385
Employer contributions	-	173,742	(173,742)
Employee contributions	-	15,561	(15,561)
Net investment income	-	560,766	(560,766)
Benefit payments, including employee refunds	(532,114)	(532,114)	-
Administrative expenses	-	(8,913)	8,913
Other changes	(1)	-	(1)
Net changes	76,563	209,042	(132,479)
Balances at 12/31/17	<u>\$ 7,331,769</u>	<u>\$ 4,601,804</u>	<u>\$ 2,729,965</u>

The net pension liability is recorded as follows:

Governmental activities	\$ 1,655,481
Business-type activities	<u>1,074,484</u>
	<u>\$ 2,729,965</u>

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 8%, as well as what the City’s net pension liability would be using a discount rate that is 1 percentage point lower (7%) or 1 percentage higher (9%) than the current rate.

	<i>1% Decrease Rate 7.00%</i>	<i>Current Rate 8.00%</i>	<i>1% Increase Rate 9.00%</i>
Net pension liability at 12/31/17	\$ -	\$ 2,729,965	\$ -
Change in net pension liability as of 12/31/17	<u>755,485</u>	<u>-</u>	<u>(643,450)</u>
	<u>\$ 3,485,450</u>	<u>\$ 2,729,965</u>	<u>\$ 2,086,515</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2018, the City recognized pension expense of \$296,858. At June 30, 2018, the City reported deferred outflows and inflows from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 70,021
Contributions subsequent to the measurement date	94,608	-
	<u>\$ 94,608</u>	<u>\$ 70,021</u>

The deferred outflows of resources and deferred inflows of resources are recorded as follows:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Governmental activities	\$ 56,764	\$ 40,851
Business-type activities	37,844	29,170
	<u>\$ 94,608</u>	<u>\$ 70,021</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$94,608), which will impact the net pension liability in fiscal year 2019, rather than pension expense.

<i>Year Ended</i>	
<u>June 30</u>	<u>Amount</u>
2019	\$ 32,181
2020	15,455
2021	(72,975)
2022	(44,682)

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

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – City of Vassar Retiree Health Care Plan (Plan) is a single employer plan established and administered by the City and can be amended by the City and Union contracts.

Eligibility	Department head with 20 years of service with the City hired prior to January 1, 2013
City benefits	City provides the retiree with pre-65 medical and prescription drug coverage through its active plan and post-65 coverage through a Medicare Advantage plan; Dental coverage is provided for retirees as well as vision for pre-65 retirees; Department heads promoted after 2012 will receive only a \$150 monthly stipend
Retiree contributions	
Retirement on or prior to July 1, 2012	None
Retirement after July 1, 2012	Department heads retiring after July 1, 2012 and eligible for employer-provided insurance coverage pay 30% of pre-65 medical, dental and vision premium; Medicare Advantage premium paid 100% by City
Changes since prior valuation	None

Summary of Plan Participants – As of June 30, 2018, Plan membership consisted of the following:

Inactive participants receiving benefits	10
Active participants	<u>3</u>
Total	<u><u>13</u></u>

Contributions – The Plan was established and is being funded under the authority of the City and under agreements with the union representing various classes of employees. The Plan’s funding policy is that the City will contribute any required amounts as determined by an annual actuarial valuation as a reference but not as a definitive requirement. 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.

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 City’s fiduciary net position have been determined on the same basis as they are presorted by the City. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Assumptions and Methods

The City’s OPEB liability was measured as of June 30, 2018.

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 and the following actuarial assumptions, applied to all periods included in the measurement:

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Inflation	2.5%
Salary increases	2.0% (for purposes of allocating liability)
Investment rate of return	7.75% (including inflation net of investment expense)
20-year Aa Municipal bond rate	3.0%
Mortality	RP-2014 adjusted to 2006 Total Data Set with MP-2018 improvement.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.5%	6.15%
Global Fixed Income	18.5%	1.26%
Real Assets	13.5%	7.22%
Diversifying Strategies	12.5%	5.00%

The sum of each target allocation times its long-term expected real rate of return is 5.25%.

The long-term expected rate of return after including inflation is 7.75%.

Discount rate – The discount rate used to measure the total OPEB liability was 3.20%. The projection of cash flows used to determine the discount rate assumed the City will make contributions of \$15,000 per year. Based on those assumptions, the Plan's fiduciary net position was projected to not be sufficient to make all 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"), 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 to measure the liability as of June 30, 2017 was 3.84%.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Net OPEB Liability

Changes in the Net OPEB Liability

	<i>Increase (Decrease)</i>		
	<i>Total OPEB Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net OPEB Liability</i>
Balance at 6/30/17	\$ 724,717	\$ 90,533	\$ 634,184
Service cost	15,049	-	15,049
Interest	27,705	-	27,705
Experience (gains)/losses	(4,787)	-	(4,787)
Change in actuarial assumptions	113,158	-	113,158
Contributions to OPEB trust	-	15,000	(15,000)
Contributions/benefit paid from general operating funds	-	36,510	(36,510)
Net investment income	-	5,303	(5,303)
Benefit payments, including employee refunds	(36,510)	(36,510)	-
Administrative expenses	-	(260)	260
Other changes	113,848	-	113,848
Net changes	228,463	20,043	208,420
Balance at 6/30/18	<u>\$ 953,180</u>	<u>\$ 110,576</u>	<u>\$ 842,604</u>

The net OPEB liability is recorded as follows:

Governmental activities	\$ 564,545
Business-type activities	<u>278,059</u>
	<u>\$ 842,604</u>

Discount and Trend Rate Sensitivities – The following presents the net OPEB liability (NOL) of the City, calculated using discount and trend rates 1% higher and 1% lower than base assumptions:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount			
Total OPEB liability	\$ 1,098,438	\$ 953,180	\$ 835,807
Plan fiduciary net position	<u>110,576</u>	<u>110,576</u>	<u>110,576</u>
Net OPEB liability	<u>\$ 987,862</u>	<u>\$ 842,604</u>	<u>\$ 725,231</u>
Trend			
Total OPEB liability	\$ 814,823	\$ 953,180	\$ 1,127,939
Plan fiduciary net position	<u>110,576</u>	<u>110,576</u>	<u>110,576</u>
Net OPEB liability	<u>\$ 704,247</u>	<u>\$ 842,604</u>	<u>\$ 1,017,363</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

OPEB Expense

Components of the City's OPEB expense for the fiscal year ended June 30, 2018 – Below are the components of the total OPEB expense:

	<u>2018</u>
Service cost	\$ 15,049
Interest on total OPEB liability	27,705
Experience (gains)/losses	(1,885)
Change in actuarial assumptions	44,550
Employee contributions	-
Projected earnings on OPEB plan investments	(4,406)
Investment earnings (gains)/losses	(179)
Administrative expenses	260
Other changes	<u>113,848</u>
Total OPEB expense	<u>\$ 194,942</u>

Net OPEB Liability

OPEB plan fiduciary net position – The OPEB plan fiduciary net position as of June 30, 2018 is \$110,576.

Deferred outflows and inflows of resources related to OPEB plan

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Experience (gains)/losses	\$ -	\$ 2,902
Change in actuarial assumptions	68,608	-
Investment earnings (gains)/losses	<u>-</u>	<u>718</u>
Net OPEB liability	<u>\$ 68,608</u>	<u>\$ 3,620</u>

The deferred outflows of resources and deferred inflows of resources are recorded as follows:

Governmental activities	\$ 45,967	\$ 2,425
Business-type activities	<u>22,641</u>	<u>1,195</u>
	<u>\$ 68,608</u>	<u>\$ 3,620</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 Ending June 30</u>	<u>Amount</u>
2019	\$ 42,486
2020	22,862
2021	(179)
2022	(181)

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB), CONTINUED

Reconciliation of the net OPEB liability

Net OPEB liability 6/30/17	\$ 634,184
Total OPEB expense	194,942
Contributions	(51,510)
Change in deferred outflows of resources	68,608
Change in deferred inflows of resources	<u>(3,620)</u>
Net OPEB liability 6/30/18	<u>\$ 842,604</u>

Total OPEB liability by participant status

Active participants	\$ 358,520
Inactive participants receiving benefits	<u>594,660</u>
Total	<u>\$ 953,180</u>

NOTE 12: FUND BALANCES

Fund balances are classified as Nonspendable, Restricted, Committed, Assigned or Unassigned. The classifications are described in Note 1 on page 32. The following illustrates the segregation of fund balances of the governmental funds shown on page 13.

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Nonspendable:				
Inventory	\$ 9,483	\$ -	\$ -	\$ 9,483
Prepaid expenditures	37,844	1,752	2,123	41,719
Long term receivables	-	-	2,704	2,704
Nonexpendable cemetery				
principal	-	-	136,609	136,609
Restricted for:				
Community development	-	-	19,743	19,743
Drug law enforcement	-	-	20	20
Fire protection services	-	-	131,878	131,878
Street lighting	1,752	-	-	1,752
Streets	-	314,293	136,897	451,190
Assigned to:				
Cemetery operations	41,071	-	-	41,071
Parks and recreation	132,329	-	-	132,329
Equipment replacement	167,622	-	-	167,622
Accumulated employee benefits	21,117	-	-	21,117
Unassigned	<u>792,310</u>	<u>-</u>	<u>-</u>	<u>792,310</u>
Total fund balances	<u>\$ 1,203,528</u>	<u>\$ 316,045</u>	<u>\$ 429,974</u>	<u>\$ 1,949,547</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 13: RESTATEMENT OF BEGINNING BALANCES

Change in Accounting Principle – As a result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in the current year, the City has restated the beginning net position in the government-wide and proprietary fund Statement of Net Position, effectively decreasing net position on July 1, 2017. The decrease results from recognition of a net OPEB liability as of July 1, 2017.

	<i>Fund Statements</i>		<i>Government-wide Statements</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Beginning, July 1, 2017, fund balance/net position as previously stated	\$ 3,599,515	\$ 2,203,140	\$ 3,635,931	\$ 5,802,655
Adjust net OPEB liability	<u>(72,733)</u>	<u>(84,223)</u>	<u>(327,437)</u>	<u>(156,956)</u>
Beginning, July 1, 2017, fund balance/net position restated	<u>\$ 3,526,782</u>	<u>\$ 2,118,917</u>	<u>\$ 3,308,494</u>	<u>\$ 5,645,699</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VASSAR

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Service cost	\$ 37,655	\$ 41,923	\$ 40,328	\$ 50,789
Interest on total pension liability	560,638	553,374	529,440	521,971
Difference between expected and actual experience	10,385	24,363	73,066	-
Changes in assumptions	-	-	372,579	-
Benefit payments, including employee refunds	(532,114)	(521,336)	(511,626)	(442,376)
Other changes	(1)	-	-	-
Net change in total pension liability	76,563	98,324	503,787	130,384
Total pension liability - beginning	7,255,206	7,156,882	6,653,095	6,522,711
Total pension liability - ending	<u>\$ 7,331,769</u>	<u>\$ 7,255,206</u>	<u>\$ 7,156,882</u>	<u>\$ 6,653,095</u>
Plan fiduciary net position				
Contributions - employer	\$ 173,742	\$ 144,024	\$ 124,992	\$ 144,279
Contributions - employee	15,561	15,872	17,758	42,213
Net investment income (loss)	560,766	470,103	(66,801)	294,080
Benefit payments, including employee refunds	(532,114)	(521,336)	(511,626)	(442,376)
Administrative expenses	(8,913)	(9,300)	(10,034)	(10,757)
Net change in plan fiduciary net position	209,042	99,363	(445,711)	27,439
Total plan fiduciary net position - beginning	4,392,762	4,293,399	4,739,110	4,711,671
Total plan fiduciary net position - ending	<u>\$ 4,601,804</u>	<u>\$ 4,392,762</u>	<u>\$ 4,293,399</u>	<u>\$ 4,739,110</u>
City's net pension liability	\$ 2,729,965	\$ 2,862,444	\$ 2,863,483	\$ 1,913,985
Plan fiduciary net position as a percentage of the total pension liability	62.77%	60.55%	59.99%	71.23%
Covered employee payroll	\$ 296,478	\$ 336,374	\$ 336,233	\$ 423,158
City's net pension liability as a percentage of covered employee payroll	920.80%	850.97%	851.64%	452.31%

Note: GASB Statement No. 68 was implemented for 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 displayed.

CITY OF VASSAR

SCHEDULE OF CITY DEFINED BENEFIT PLAN PENSION CONTRIBUTIONS

Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 189,216	\$ 158,268	\$ 129,780	\$ 120,592	\$ 107,999
Contributions in relation to the actuarially determined contribution	<u>189,216</u>	<u>158,268</u>	<u>129,780</u>	<u>120,592</u>	<u>107,999</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 296,478	\$ 336,233	\$ 336,233	\$ 423,158	\$ 701,947
Actuarially determined contribution as a percentage of covered-employee payroll	63.82%	47.07%	38.60%	28.50%	15.39%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 97,524	\$ 98,425	\$ 111,621	\$ 85,122	\$ 94,683
Contributions in relation to the actuarially determined contribution	<u>97,524</u>	<u>98,425</u>	<u>111,621</u>	<u>85,122</u>	<u>94,683</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 797,406	\$ 877,218	\$ 903,337	\$ 971,068	\$ 969,326
Actuarially determined contribution as a percentage of covered-employee payroll	12.23%	11.22%	12.36%	8.77%	9.77%

Notes to Schedule

Valuation date

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Experience based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables

Note: Information presented in this schedule is as of fiscal year end of each year.

CITY OF VASSAR

SCHEDULE OF CHANGES IN CITY'S NET OPEB LIABILITY AND RELATED RATIOS

	<u>2018</u>	<u>2017</u>
Service cost	\$ 15,049	\$ 11,645
Interest	27,705	29,463
Changes in benefit terms	-	-
Experience (gains)/losses	(4,787)	(574)
Changes in assumptions	113,158	79,464
Benefit payments, including refunds of employee contributions	(36,510)	(37,222)
Other changes	113,848	-
Net change in total OPEB liability	228,463	82,776
Total OPEB liability - beginning	724,717	641,941
Total OPEB liability - ending	<u>\$ 953,180</u>	<u>\$ 724,717</u>
Plan fiduciary net position		
Contributions to OPEB trust	\$ 15,000	\$ 15,000
Contributions/benefit payments made from general operating funds	36,510	37,222
Net investment income (loss)	5,303	6,956
Benefit payments, including refunds of employee contributions	(36,510)	(37,222)
Administrative expenses	(260)	(211)
Net change in plan fiduciary net position	20,043	21,745
Total plan fiduciary net position - beginning	90,533	68,788
Total plan fiduciary net position - ending	<u>\$ 110,576</u>	<u>\$ 90,533</u>
City's net OPEB liability	\$ 842,604	\$ 634,184
Plan fiduciary net position as a percentage of the total OPEB liability	11.6%	12.5%
Covered employee payroll	\$ 1,014,069	\$ 1,014,369
City's net OPEB liability as a percentage of covered payroll	83.1%	62.5%

Note: GASB Statement No. 75 was implemented for the year ended June 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of data is displayed.

CITY OF VASSAR

SCHEDULE OF CITY OPEB CONTRIBUTIONS

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 76,061	\$ 64,343
Contributions in relation to the actuarially determined contribution	<u>51,510</u>	<u>52,222</u>
Contribution (excess) deficiency	<u>\$ 24,551</u>	<u>\$ 12,121</u>
Covered-employee payroll	\$ 1,014,069	\$ 1,014,369
Actuarially determined contribution as a percentage of covered-employee payroll	7.50%	6.34%

Notes to Schedule

Amortization of unfunded liability based on 11-year, level percent of pay, amortization of unfunded liability; alternative funding scenarios could be considered

Note: GASB Statement No. 75 was implemented for the year ended June 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of data is displayed.

CITY OF VASSAR

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Actual</i>
	<u>Original</u>	<u>Final</u>		<i>Over (Under)</i>
				<u>Final Budget</u>
Revenues:				
Property taxes	\$ 633,453	\$ 634,620	\$ 634,986	\$ 366
Special assessments	10,813	10,813	8,848	(1,965)
Licenses and permits	12,500	22,700	23,984	1,284
State grants	317,127	388,027	417,721	29,694
Contributions from other units	9,200	9,200	14,200	5,000
Charges for services	275,294	271,434	273,541	2,107
Fines and forfeits	2,000	2,500	2,724	224
Interest and rents	80,345	92,095	108,518	16,423
Other revenue	<u>27,975</u>	<u>87,435</u>	<u>75,465</u>	<u>(11,970)</u>
Total revenues	<u>1,368,707</u>	<u>1,518,824</u>	<u>1,559,987</u>	<u>41,163</u>
Expenditures:				
Current				
General government				
Mayor and Council	9,505	9,505	6,903	(2,602)
Manager	91,519	92,382	90,216	(2,166)
Clerk	69,656	74,156	71,502	(2,654)
Audit	10,300	10,400	10,400	-
Information technology	11,200	11,200	9,985	(1,215)
Treasurer	7,676	7,676	7,662	(14)
Assessor	13,121	13,121	12,278	(843)
Elections	2,000	2,000	1,412	(588)
Hall	136,312	140,442	134,120	(6,322)
Attorney	<u>10,000</u>	<u>8,000</u>	<u>6,658</u>	<u>(1,342)</u>
Total general government	<u>361,289</u>	<u>368,882</u>	<u>351,136</u>	<u>(17,746)</u>
Public safety				
Police department	<u>416,335</u>	<u>447,605</u>	<u>441,781</u>	<u>(5,824)</u>
Public works				
Department of public works	81,481	85,581	87,804	2,223
Sidewalks	7,635	7,635	2,767	(4,868)
Street lighting	66,850	66,850	67,791	941
Parking lot	6,610	21,110	20,887	(223)
Refuse	140,900	140,900	152,439	11,539
Cemetery	<u>32,985</u>	<u>33,735</u>	<u>28,412</u>	<u>(5,323)</u>
Total public works	<u>336,461</u>	<u>355,811</u>	<u>360,100</u>	<u>4,289</u>
Health and welfare				
Ambulance	<u>21,576</u>	<u>21,576</u>	<u>21,576</u>	<u>-</u>
Community and economic development				
Economic development	<u>20,000</u>	<u>20,000</u>	<u>8,218</u>	<u>(11,782)</u>

continued

CITY OF VASSAR

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended June 30, 2018

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Recreation and culture				
Parks and recreation department	70,670	80,690	74,593	(6,097)
Band	1,500	1,500	1,652	152
Total recreation and culture	<u>72,170</u>	<u>82,190</u>	<u>76,245</u>	<u>(5,945)</u>
Capital outlay				
General government				
Information technology	9,000	9,000	8,728	(272)
Hall	51	24,051	36,977	12,926
Public safety				
Police department	2,300	9,811	9,811	-
Public works				
Department of public works	40,000	40,000	13,970	(26,030)
Recreation and culture				
Parks and recreation department	500	2,500	-	(2,500)
Total capital outlay	<u>51,851</u>	<u>85,362</u>	<u>69,486</u>	<u>(28,530)</u>
Debt service				
Principal	34,340	34,340	34,340	-
Interest and fees	16,434	16,434	16,436	2
Total debt service	<u>50,774</u>	<u>50,774</u>	<u>50,776</u>	<u>2</u>
Total expenditures	<u>1,330,456</u>	<u>1,432,200</u>	<u>1,379,318</u>	<u>(65,536)</u>
Excess (deficiency) of revenues over expenditures	<u>38,251</u>	<u>86,624</u>	<u>180,669</u>	<u>94,045</u>
Other financing sources (uses):				
Interfund transfers in	250	250	2,408	2,158
Interfund transfers out	<u>(17,525)</u>	<u>(25,525)</u>	<u>(28,833)</u>	<u>(3,308)</u>
Net other financing sources (uses)	<u>(17,275)</u>	<u>(25,275)</u>	<u>(26,425)</u>	<u>(1,150)</u>
Change in fund balance	20,976	61,349	154,244	92,895
Fund balance, beginning of year	<u>1,049,284</u>	<u>1,049,284</u>	<u>1,049,284</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,070,260</u>	<u>\$ 1,110,633</u>	<u>\$ 1,203,528</u>	<u>\$ 92,895</u>

CITY OF VASSAR

MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Actual</i>
	<u>Original</u>	<u>Final</u>		<i>Over (Under)</i>
				<u>Final Budget</u>
Revenues:				
State grants	\$ 221,503	\$ 221,503	\$ 250,775	\$ 29,272
Contributions from other units	37,800	37,800	37,612	(188)
Interest and rents	<u>50</u>	<u>50</u>	<u>62</u>	<u>12</u>
Total revenues	<u>259,353</u>	<u>259,353</u>	<u>288,449</u>	<u>29,096</u>
Expenditures:				
Current				
Public works	<u>171,074</u>	<u>186,574</u>	<u>164,095</u>	<u>(22,479)</u>
Excess (deficiency) of revenues over expenditures	<u>88,279</u>	<u>72,779</u>	<u>124,354</u>	<u>51,575</u>
Other financing sources (uses):				
Interfund transfers out	<u>(60,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>
Change in fund balance	28,279	12,779	64,354	51,575
Fund balance, beginning of year	<u>251,691</u>	<u>251,691</u>	<u>251,691</u>	<u>-</u>
Fund balance, end of year	<u>\$ 279,970</u>	<u>\$ 264,470</u>	<u>\$ 316,045</u>	<u>\$ 51,575</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2018

	<i>Special Revenue Funds</i>			
	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Fire Fund</i>	<i>Drug Law Enforcement Fund</i>
Assets:				
Cash and cash equivalents	\$ 70,721	\$ 11,714	\$ 135,543	\$ 20
Accounts receivable	-	-	-	-
Special assessments receivable	187	-	-	-
Notes receivable	-	-	-	-
Due from other governments	50,846	4,366	-	-
Prepaid expenditures	1,783	-	340	-
Total assets	<u>\$ 123,537</u>	<u>\$ 16,080</u>	<u>\$ 135,883</u>	<u>\$ 20</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 937	\$ -	\$ 3,665	\$ -
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>937</u>	<u>-</u>	<u>3,665</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Prepaid expenditures	1,783	-	340	-
Long term receivables	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-
Restricted for:				
Community and economic development	-	-	-	-
Drug law enforcement	-	-	-	20
Fire protection services	-	-	131,878	-
Streets	120,817	16,080	-	-
Total fund balances	<u>122,600</u>	<u>16,080</u>	<u>132,218</u>	<u>20</u>
Total liabilities and fund balances	<u>\$ 123,537</u>	<u>\$ 16,080</u>	<u>\$ 135,883</u>	<u>\$ 20</u>

continued

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET, CONTINUED

June 30, 2018

	<u>Special Revenue Funds</u>		<u>Permanent Fund</u>	<u>Total</u>
	<u>Cool Cities Fund</u>	<u>DDA Loan Revolving Fund</u>	<u>Cemetery Perpetual Care Fund</u>	
Assets:				
Cash and cash equivalents	\$ 1,820	\$ 19,143	\$ 138,617	\$ 377,578
Accounts receivable	-	-	400	400
Special assessments receivable	-	-	-	187
Notes receivable	-	3,304	-	3,304
Due from other governments	-	-	-	55,212
Prepaid expenditures	3,600	-	-	5,723
Total assets	<u>\$ 5,420</u>	<u>\$ 22,447</u>	<u>\$ 139,017</u>	<u>\$ 442,404</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 420	\$ -	\$ -	\$ 5,022
Due to other funds	-	-	2,408	2,408
Unearned revenue	5,000	-	-	5,000
Total liabilities	<u>5,420</u>	<u>-</u>	<u>2,408</u>	<u>12,430</u>
Fund balances:				
Nonspendable:				
Prepaid expenditures	-	-	-	2,123
Long term receivables	-	2,704	-	2,704
Nonexpendable cemetery principal	-	-	136,609	136,609
Restricted for:				
Community and economic development	-	19,743	-	19,743
Drug law enforcement	-	-	-	20
Fire protection services	-	-	-	131,878
Streets	-	-	-	136,897
Total fund balances	<u>-</u>	<u>22,447</u>	<u>136,609</u>	<u>429,974</u>
Total liabilities and fund balances	<u>\$ 5,420</u>	<u>\$ 22,447</u>	<u>\$ 139,017</u>	<u>\$ 442,404</u>

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES**

Year Ended June 30, 2018

	<i>Special Revenue Funds</i>			
	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Fire Fund</i>	<i>Drug Law Enforcement Fund</i>
Revenues:				
Special assessments	\$ 1	\$ -	\$ -	\$ -
State grants	88,017	30,277	-	-
Contributions from other units	18,722	-	72,100	-
Charges for services	-	-	38,375	-
Interest and rents	14	5	132	-
Other revenue	-	-	13,605	-
Total revenues	106,754	30,282	124,212	-
Expenditures:				
Current				
Public safety	-	-	104,097	-
Public works	182,903	40,436	-	-
Community and economic development	-	-	-	-
Capital outlay	-	-	11,634	-
Total expenditures	182,903	40,436	115,731	-
Excess (deficiency) of revenues over expenditures	(76,149)	(10,154)	8,481	-
Other financing sources (uses):				
Interfund transfers in	83,525	-	-	-
Interfund transfers out	-	-	-	-
Changes in fund balances	7,376	(10,154)	8,481	-
Fund balances, beginning of year	115,224	26,234	123,737	20
Fund balances, end of year	\$ 122,600	\$ 16,080	\$ 132,218	\$ 20

continued

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended June 30, 2018

	<i>Special Revenue Funds</i>		<i>Permanent Fund</i>	<i>Total</i>
	<i>Cool Cities Fund</i>	<i>DDA Loan Revolving Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
Revenues:				
Special assessments	\$ -	\$ -	\$ -	\$ 1
State grants	-	-	-	118,294
Contributions from other units	-	-	-	90,822
Charges for services	-	-	1,250	39,625
Interest and rents	-	34	2,408	2,593
Other revenue	3,800	-	-	17,405
Total revenues	3,800	34	3,658	268,740
Expenditures:				
Current				
Public safety	-	-	-	104,097
Public works	-	-	-	223,339
Community and economic development	9,386	-	-	9,386
Capital outlay	-	-	-	11,634
Total expenditures	9,386	-	-	348,456
Excess (deficiency) of revenues over expenditures	(5,586)	34	3,658	(79,716)
Other financing sources (uses):				
Interfund transfers in	5,308	-	-	88,833
Interfund transfers out	-	-	(2,408)	(2,408)
Changes in fund balances	(278)	34	1,250	6,709
Fund balances, beginning of year	278	22,413	135,359	423,265
Fund balances, end of year	\$ -	\$ 22,447	\$ 136,609	\$ 429,974

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES SCHEDULE OF INDEBTEDNESS

June 30, 2018

2006 COUNTY CONTRACT FINANCING

Issue dated August 1, 2006 in the amount of	\$	686,826
Less: Principal paid in prior years		(377,816)
Principal paid in current year		<u>(34,340)</u>
Balance payable at June 30, 2018	\$	<u>274,670</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>December 1</u></i>	<i><u>Interest due</u></i> <i><u>December 1</u></i>	<i><u>Total</u></i> <i><u>Annual</u></i> <i><u>Requirement</u></i>
2019	5.317%	\$ 34,341	\$ 14,608	\$ 48,949
2020	4.250%	34,341	10,217	44,558
2021	4.250%	34,341	8,781	43,122
2022	4.250%	34,341	7,298	41,639
2023	4.250%	34,341	5,838	40,179
2024	4.250%	34,341	4,379	38,720
2025	4.250%	34,341	2,927	37,268
2026	4.250%	<u>34,283</u>	<u>1,460</u>	<u>35,743</u>
		<u>\$ 274,670</u>	<u>\$ 55,508</u>	<u>\$ 330,178</u>

CITY OF VASSAR

BUSINESS-TYPE ACTIVITIES SCHEDULE OF INDEBTEDNESS

June 30, 2018

2012 LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS

Issue dated July 12, 2012 in the amount of	\$	671,000
Less: Principal paid in prior years		(343,000)
Principal paid in current year		<u>(61,000)</u>
Balance payable at June 30, 2018	\$	<u>267,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u>	<u>Interest due</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2019	2.190%	\$ 61,000	\$ 5,508	\$ 66,508
2020	2.190%	61,000	4,172	65,172
2021	2.190%	61,000	2,836	63,836
2022	2.190%	<u>84,000</u>	<u>1,380</u>	<u>85,380</u>
		<u>\$ 267,000</u>	<u>\$ 13,896</u>	<u>\$ 280,896</u>

Note: The Sewer Fund is obligated for 56.4% and the Water Fund is obligated for 43.6% of this debt.

Sewer Fund	\$	150,588
Water Fund		<u>116,412</u>
	\$	<u>267,000</u>

CITY OF VASSAR

BUSINESS-TYPE ACTIVITIES SCHEDULE OF INDEBTEDNESS

June 30, 2018

2013 LIMITED TAX GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS

Issue dated September 13, 2013 in the amount of	\$	760,000
Less: Principal paid in prior year		(156,000)
Principal paid in current year		<u>(45,000)</u>
Balance payable at June 30, 2018	\$	<u>559,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>October 1</u>	<u>Interest due</u> <u>October 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2019	2.125%	\$ 13,000	\$ 6,053	\$ 5,801	\$ 24,854
2020	2.125%	14,000	5,801	5,653	25,454
2021	2.125%	14,000	5,653	5,504	25,157
2022	2.125%	14,000	5,504	5,355	24,859
2023	2.125%	14,000	5,355	5,206	24,561
2024	2.125%	15,000	5,206	5,047	25,253
2025	2.125%	15,000	5,047	4,888	24,935
2026	2.125%	15,000	4,888	4,728	24,616
2027	2.125%	16,000	4,728	4,558	25,286
2028	2.125%	16,000	4,558	4,388	24,946
2029	2.125%	16,000	4,388	4,218	24,606
2030	2.125%	17,000	4,218	4,038	25,256
2031	2.125%	17,000	4,038	3,857	24,895
2032	2.125%	18,000	3,857	3,666	25,523
2033	2.125%	18,000	3,666	3,474	25,140
2034	2.125%	18,000	3,474	3,283	24,757
2035	2.125%	19,000	3,283	3,081	25,364
2036	2.125%	19,000	3,081	2,879	24,960
2037	2.125%	19,000	2,879	2,678	24,557
2038	2.125%	20,000	2,678	2,465	25,143
2039	2.125%	20,000	2,465	2,253	24,718
2040	2.125%	21,000	2,253	2,029	25,282
2041	2.125%	21,000	2,029	1,806	24,835
2042	2.125%	22,000	1,806	1,573	25,379
2043	2.125%	22,000	1,573	1,339	24,912
2044	2.125%	23,000	1,339	1,094	25,433
2045	2.125%	23,000	1,094	850	24,944
2046	2.125%	23,000	850	606	24,456
2047	2.125%	24,000	606	351	24,957
2048	2.125%	25,000	351	85	25,436
2049	2.125%	8,000	85	-	8,085
		<u>\$ 559,000</u>	<u>\$ 102,806</u>	<u>\$ 96,753</u>	<u>\$ 758,559</u>

Note: The Sewer Fund is obligated for this debt.



**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 Vassar, Michigan

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Vassar, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Vassar's basic financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given those limitations, we identified, and noted below, deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Other material weaknesses may exist that have not been identified.

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing and summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the City has placed reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

To the Honorable Mayor and Members of City Council
City of Vassar, Michigan

Cause: This condition was caused by the City's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the City to perform these tasks internally.

Effect: As a result of this condition, the City lacks internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The City has evaluated the cost versus benefit of establishing internal controls over the recording, processing and summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the City to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Vassar'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.

Berthiaume & Co.

Saginaw, Michigan
December 12, 2018