

CITY OF VASSAR

Tuscola County, Michigan

FINANCIAL STATEMENTS

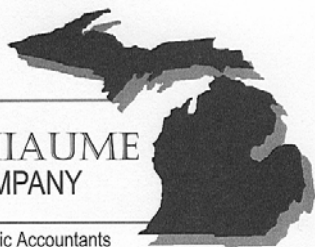
June 30, 2013

CITY OF VASSAR

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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, 2013, 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, 2013, 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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedules of pension plan and other postemployment benefits funding progress, (page 42), and budgetary comparison information (pages 43 and 44) 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 supplemental 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 supplemental 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 supplemental 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 September 12, 2013 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
September 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2013. 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 assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,093,389 (net position). Of this amount, \$1,997,103 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and others.

During the fiscal year, the City's total net position increased by \$55,854. Governmental activities increased by \$68,375, while business-type activities decreased by \$12,521.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,308,257, a decrease of \$146,154 in comparison with prior year. Approximately 39 percent of this total or \$514,916 is either in nonspendable form or restricted for various purposes. Of the remaining fund balance, \$274,627 is assigned to special uses, leaving an unassigned fund balance of \$518,714. The unassigned fund balance is reported in the General Fund, which is approximately 32 percent of the General Fund's annual expenditures (including transfers).

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 supplemental information and other supplemental 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, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

The government-wide financial statements can be found on pages 11 through 12 of this report.

Fund Financial Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The City maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Street Fund, which are considered to be major funds. Data from the other six (6) governmental 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. A budgetary comparison statement has been provided for the General Fund and Major Street Fund, the City's only major governmental funds, to demonstrate compliance with that budget.

Proprietary Funds – The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for sewage collection, water distribution, and stormwater management.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Water Funds, which are considered to be major funds of the City. The nonmajor Enterprise Fund is also presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 17 through 21 of this report.

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 those 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 supplemental information concerning the City.

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

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$11,093,389 at the close of the most recent fiscal year. Most of this amount (75 percent) reflects the investment in capital assets (e.g., land, buildings, furniture, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; thus, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (9 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net position (16 percent) may be used to meet the government's ongoing obligations to citizens and others.

City of Vassar's Net Position

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current and other assets	\$ 1,340,067	\$ 1,635,778	\$ 1,806,101	\$ 1,782,076	\$ 3,146,168	\$ 3,417,854
Capital assets	<u>3,717,187</u>	<u>3,615,941</u>	<u>5,526,371</u>	<u>5,815,419</u>	<u>9,243,558</u>	<u>9,431,360</u>
Total assets	<u>5,057,254</u>	<u>5,251,719</u>	<u>7,332,472</u>	<u>7,597,495</u>	<u>12,389,726</u>	<u>12,849,214</u>
Liabilities:						
Current and other liabilities	45,658	197,329	30,847	61,047	76,505	258,376
Long-term liabilities	<u>564,120</u>	<u>675,289</u>	<u>655,712</u>	<u>878,014</u>	<u>1,219,832</u>	<u>1,553,303</u>
Total liabilities	<u>609,778</u>	<u>872,618</u>	<u>686,559</u>	<u>939,061</u>	<u>1,296,337</u>	<u>1,811,679</u>
Net position:						
Net investment in capital assets	3,717,187	3,552,241	4,930,371	4,995,419	8,647,558	8,547,660
Restricted	448,728	469,541	-	329,432	448,728	798,973
Unrestricted	<u>281,561</u>	<u>357,319</u>	<u>1,715,542</u>	<u>1,333,583</u>	<u>1,997,103</u>	<u>1,690,902</u>
Total net position	<u>\$ 4,447,476</u>	<u>\$ 4,379,101</u>	<u>\$ 6,645,913</u>	<u>\$ 6,658,434</u>	<u>\$11,093,389</u>	<u>\$11,037,535</u>

Statement of Activities

During the current fiscal year, the government's total net position increased by \$55,854. Governmental activities increased by \$68,375, while business-type activities decreased by \$12,521.

Governmental Activities – The net position increase of \$68,375 was relatively minor compared to the prior year's increase of \$268,072. In the prior year, the City received a pass-through grant from the Michigan Department of Transportation (MDOT) for \$325,835 and the resulting infrastructure improvement was capitalized.

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities – Efforts continued to be made to stabilize the Water and Sewer Funds over the past year despite reductions that are related to usage. In the current fiscal year, utility rates were increased by City Council to cover expenses associated with maintaining the two systems. In addition, the City was notified that its largest user within the system filed for bankruptcy in the U.S. Bankruptcy Court for the District of Delaware. This is expected to have a large impact on future revenues.

City of Vassar's Changes in Net Position

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues						
Charges for services	\$ 342,021	\$ 308,482	\$ 1,087,587	\$ 1,068,527	\$ 1,429,608	\$ 1,377,009
Operating grants	273,280	244,870	18,498	8,152	291,778	253,022
Capital grants	53,132	373,820	-	-	53,132	373,820
General revenues						
Property taxes	799,149	859,734	-	-	799,149	859,734
Franchise fees	11,556	10,422	-	-	11,556	10,422
State revenue sharing	292,794	282,442	-	-	292,794	282,442
Investment earnings	2,337	6,021	1,866	3,738	4,203	9,759
Other	21,117	16,035	-	-	21,117	16,035
Total revenues	<u>1,795,386</u>	<u>2,101,826</u>	<u>1,107,951</u>	<u>1,080,417</u>	<u>2,903,337</u>	<u>3,182,243</u>
Program Expenses:						
General government	427,093	428,408	-	-	427,093	428,408
Public safety	508,412	581,095	-	-	508,412	581,095
Public works	600,967	601,995	-	-	600,967	601,995
Health and welfare	21,576	22,584	-	-	21,576	22,584
Community and economic development	20,480	38,385	-	-	20,480	38,385
Recreation and culture	125,874	133,989	-	-	125,874	133,989
Interest on long-term debt	25,954	29,448	-	-	25,954	29,448
Sewer	-	-	750,207	781,441	750,207	781,441
Water	-	-	338,720	364,850	338,720	364,850
Stormwater management	-	-	31,545	30,137	31,545	30,137
Total program expenses	<u>1,730,356</u>	<u>1,835,904</u>	<u>1,120,472</u>	<u>1,176,428</u>	<u>2,850,828</u>	<u>3,012,332</u>
Increase (decrease) in net position before other	<u>65,030</u>	<u>265,922</u>	<u>(12,521)</u>	<u>(96,011)</u>	<u>52,509</u>	<u>169,911</u>
Other items:						
Contributions to principal	2,400	2,150	-	-	2,400	2,150
Disposal of capital assets	945	-	-	-	945	-
Total other items	<u>3,345</u>	<u>2,150</u>	<u>-</u>	<u>-</u>	<u>3,345</u>	<u>2,150</u>
Change in net position	<u>68,375</u>	<u>268,072</u>	<u>(12,521)</u>	<u>(96,011)</u>	<u>55,854</u>	<u>172,061</u>
Net position, beginning	<u>4,379,101</u>	<u>4,111,029</u>	<u>6,658,434</u>	<u>6,754,445</u>	<u>11,037,535</u>	<u>10,865,474</u>
Net position, ending	<u>\$ 4,447,476</u>	<u>\$ 4,379,101</u>	<u>\$ 6,645,913</u>	<u>\$ 6,658,434</u>	<u>\$ 11,093,389</u>	<u>\$ 11,037,535</u>

CITY OF VASSAR

MANAGEMENT'S DISCUSSION AND ANALYSIS

City Funds Financial Analysis

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

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities. The City's major governmental funds are the General Fund and Major Street Fund. Additionally, the City reports the Sewer and Water funds as major proprietary funds.

The General Fund accounts for functions relating to the general government activities of the City, which are financed by property tax levies, distribution of State revenues, and fees charged for various municipal activities and services. This fund had a decrease in fund balance of \$125,391.

The Major Street Fund accounts for the Act 51 revenues received through the State of Michigan to maintain the City's major streets system. This fund had a decrease in fund balance of \$1,818.

The Sewer Fund covers the operations of the City's sewage treatment plant and the maintenance and construction of the sewer distribution system. This fund had a decrease in fund net position of \$80,961.

The Water Fund finances the operations of the water treatment plant and the entire transmission and distribution system. This fund had an increase in fund net position of \$49,135.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City management monitor and may amend the budget to account for unanticipated events during the year. Quarterly amendments were adopted through the end of the year to reflect changes in our financial position.

Once again, several factors impacted the General Fund in this fiscal year. The significant items include the following:

- **Total Revenue:** The City experienced an increase of \$154,534, which equals an 11% increase in total revenue in fiscal year 2013 from the original adopted budget. The City qualified for all three categories of funding under Economic Vitality Incentive Program through the Michigan Department of Treasury.
- **Total Expenditures:** The City experienced a decrease of \$137,561, which equals an 8% decrease in total expenditures in fiscal year 2013 from the original adopted budget. Expenditures in almost all of the functions were less than what was originally expected.

The City has made a concentrated effort to use the budget as a significant monitoring tool for assessing the City's finances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for governmental and business-type activities as of June 30, 2013 amounts to \$9,243,558 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, vehicles, furniture and equipment, other equipment, distribution systems, and infrastructure. Governmental activities included additions of \$239,337, which included final work on an infrastructure project at Oak Street of \$150,201, preliminary work related to Huron Avenue Phase II reconstruction of \$60,136, and a police vehicle acquisition of \$29,000. Business-type activities included additions of \$25,053, which included preliminary work on sewer system improvements and final work on an infrastructure project at Oak Street.

Debt – At the end of the current fiscal year, the City had total debt (excluding compensated absences and net OPEB obligations) outstanding of \$1,042,370. This amount is backed by the full faith and credit of the government. During the current fiscal year, the City completed an advance refunding pay off on the Water Supply and Sewage Disposal System Revenue Refunding Bonds, Series 1998. In July 2012, the City issued new debt in the amount of \$671,000 and used these funds and additional City monies to pay off \$820,000 outstanding on the 1998 bond, which was at an interest rate of 5.125-5.25%. The new 2012 debt is at an interest rate of 2.19%. The net economic present value gain resulting from this transaction was approximately \$344,000.

Future Economic Factors

The City of Vassar's economic future is currently dependent upon many factors that are beyond the control of the City Council and City management. The housing market has continued its downturn with foreclosure rates increasing and property taxes being reduced significantly from last year. In fiscal year 2013, the City experienced a 7.59% decrease in taxable property values.

Interest rates have remained lower throughout the fiscal year, which has created the challenge of searching for other ways of earning bigger yields on our savings.

These uncertain times in our economy create the need for the City to continue to utilize strategic planning methods in the years ahead. In spite of the cost saving measures implemented, rising costs for fuel, electricity, supplies, and personnel continued to impact our overall budget. All City funds are impacted by these increased costs.

Strategic planning includes the following:

- Adopting new revenue sources for new debt
- Paying off, refinancing or seeking out lower interest rates related to debt
- Converting new hires to a defined contribution retirement plan
- Changing insurance providers that provide similar coverage at lower costs to the City
- Contributing a percentage of eligible wages into a Retiree Health Care Funding Vehicle to assist with costs associated with postemployment healthcare
- Evaluating staff positions at the time of an employee's departure and implementing department restructuring, if needed
- Planning for large capital improvement costs, such as an approximate expense of \$294,000 associated with a road improvement project

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, 2013

	<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	\$ 1,143,179	\$ 1,561,280	\$ 2,704,459	\$ 125,427
Receivables	137,235	195,602	332,837	-
Inventory	19,838	-	19,838	-
Prepaid expenses	39,815	5,794	45,609	-
Capital assets:				
Nondepreciable capital assets	614,790	51,570	666,360	52,663
Depreciable capital assets, net	3,102,397	5,474,801	8,577,198	-
Other assets	-	43,425	43,425	-
Total assets	<u>5,057,254</u>	<u>7,332,472</u>	<u>12,389,726</u>	<u>178,090</u>
Liabilities:				
Accounts payable and accrued expenses	45,658	30,847	76,505	5,250
Long-term liabilities:				
Due within one year	34,340	69,000	103,340	-
Due in more than one year	<u>529,780</u>	<u>586,712</u>	<u>1,116,492</u>	<u>-</u>
Total liabilities	<u>609,778</u>	<u>686,559</u>	<u>1,296,337</u>	<u>5,250</u>
Net position:				
Net investment in capital assets	3,717,187	4,930,371	8,647,558	52,663
Restricted for:				
Streets	294,781	-	294,781	-
Drug law enforcement	20	-	20	-
Community and economic development	23,388	-	23,388	-
Nonexpendable cemetery principal	129,709	-	129,709	-
Street lighting	830	-	830	-
Unrestricted	<u>281,561</u>	<u>1,715,542</u>	<u>1,997,103</u>	<u>120,177</u>
Total net position	<u>\$ 4,447,476</u>	<u>\$ 6,645,913</u>	<u>\$ 11,093,389</u>	<u>\$ 172,840</u>

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

CITY OF VASSAR

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 427,093	\$ 113,702	\$ 1,000	\$ -	\$ (312,391)
Public safety	508,412	55,081	821	-	(452,510)
Public works	600,967	139,495	240,544	33,132	(187,796)
Health and welfare	21,576	21,641	-	-	65
Community and economic development	20,480	-	735	20,000	255
Recreation and culture	125,874	12,102	30,180	-	(83,592)
Interest on long-term debt	25,954	-	-	-	(25,954)
Total governmental activities	<u>1,730,356</u>	<u>342,021</u>	<u>273,280</u>	<u>53,132</u>	<u>(1,061,923)</u>
<i>Business-type activities:</i>					
Sewer	750,207	652,847	15,964	-	(81,396)
Water	338,720	383,956	2,534	-	47,770
Stormwater management	31,545	50,784	-	-	19,239
Total business-type activities	<u>1,120,472</u>	<u>1,087,587</u>	<u>18,498</u>	<u>-</u>	<u>(14,387)</u>
Total primary government	<u>\$2,850,828</u>	<u>\$ 1,429,608</u>	<u>\$ 291,778</u>	<u>\$ 53,132</u>	<u>\$(1,076,310)</u>
COMPONENT UNITS:					
Economic development corporation	\$ 40,871	\$ -	\$ -	\$ -	\$ (40,871)
Downtown development authority	61,235	-	-	-	(61,235)
Total component units	<u>\$ 102,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (102,106)</u>

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

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (1,061,923)	\$ (14,387)	\$ (1,076,310)	\$ (102,106)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	725,810	-	725,810	-
Property taxes, County allocation for streets	63,113	-	63,113	-
Property taxes, captured by component units	-	-	-	61,485
Payment in lieu of property taxes	10,226	-	10,226	-
Franchise fees	11,556	-	11,556	-
Grants and contributions not restricted to specific programs	292,794	-	292,794	-
Unrestricted investment earnings	2,337	1,866	4,203	98
Other	21,117	-	21,117	2,788
Contributions to principal of permanent fund	2,400	-	2,400	-
Special item - Disposal of capital assets	945	-	945	-
Total	<u>1,130,298</u>	<u>1,866</u>	<u>1,132,164</u>	<u>64,371</u>
Changes in net position	68,375	(12,521)	55,854	(37,735)
Net position, beginning of year	<u>4,379,101</u>	<u>6,658,434</u>	<u>11,037,535</u>	<u>210,575</u>
Net position, end of year	<u>\$ 4,447,476</u>	<u>\$ 6,645,913</u>	<u>\$ 11,093,389</u>	<u>\$ 172,840</u>

CITY OF VASSAR

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2013

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 755,360	\$ 151,892	\$ 235,927	\$ 1,143,179
Accounts receivable	17,402	-	400	17,802
Special assessments receivable	-	-	1,326	1,326
Notes receivable	11,665	-	20,352	32,017
Due from other governmental units	49,410	23,900	12,780	86,090
Due from other funds	1,221	-	-	1,221
Inventory	19,838	-	-	19,838
Prepaid expenditures	34,685	2,565	2,565	39,815
	<u>889,581</u>	<u>178,357</u>	<u>273,350</u>	<u>1,341,288</u>
Total assets	<u>\$ 889,581</u>	<u>\$ 178,357</u>	<u>\$ 273,350</u>	<u>\$ 1,341,288</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 29,202	\$ 1,245	\$ 1,343	\$ 31,790
Due to other funds	-	-	1,221	1,221
Deposits payable	20	-	-	20
	<u>29,222</u>	<u>1,245</u>	<u>2,564</u>	<u>33,031</u>
Total liabilities	<u>29,222</u>	<u>1,245</u>	<u>2,564</u>	<u>33,031</u>
Fund balances:				
Nonspendable:				
Inventory	19,838	-	-	19,838
Prepaid expenditures	34,685	2,565	2,565	39,815
Long term receivables	11,665	-	1,326	12,991
Nonexpendable cemetery principal	-	-	129,709	129,709
Restricted for:				
Streets	-	174,547	113,778	288,325
Drug law enforcement	-	-	20	20
Community and economic development	-	-	23,388	23,388
Street lighting	830	-	-	830
Assigned to:				
Fire protection services	49,919	-	-	49,919
Cemetery operations	31,196	-	-	31,196
Parks and recreation	64,305	-	-	64,305
Equipment replacement	75,906	-	-	75,906
Accumulated employee benefits	53,301	-	-	53,301
Unassigned	518,714	-	-	518,714
	<u>860,359</u>	<u>177,112</u>	<u>270,786</u>	<u>1,308,257</u>
Total fund balances	<u>860,359</u>	<u>177,112</u>	<u>270,786</u>	<u>1,308,257</u>
Total liabilities and fund balances	<u>\$ 889,581</u>	<u>\$ 178,357</u>	<u>\$ 273,350</u>	<u>\$ 1,341,288</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, 2013

Fund balances for governmental funds			\$ 1,308,257
Net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets		6,542,309	
Less accumulated depreciation		<u>(2,825,122)</u>	3,717,187
Accrued interest in the governmental activities is not payable from current resources and therefore is not reported in the governmental funds.			(13,848)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.			
Long-term debt		(446,370)	
Compensated absences payable		(56,037)	
Net OPEB obligation		<u>(61,713)</u>	<u>(564,120)</u>
Net position of governmental activities			<u>\$ 4,447,476</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, 2013

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
Revenues:				
Property taxes	\$ 736,036	\$ 42,138	\$ 20,975	\$ 799,149
Licenses and permits	12,886	-	-	12,886
Federal grants	-	33,132	-	33,132
State grants	322,258	151,648	88,896	562,802
Contributions from other units	78,587	-	-	78,587
Charges for services	244,838	-	-	244,838
Fines and forfeits	2,447	-	-	2,447
Interest and rents	71,183	78	339	71,600
Other revenue	43,235	-	6,303	49,538
Total revenues	<u>1,511,470</u>	<u>226,996</u>	<u>116,513</u>	<u>1,854,979</u>
Expenditures:				
Current				
General government	419,542	-	-	419,542
Public safety	490,916	-	-	490,916
Public works	258,194	260,519	170,710	689,423
Health and welfare	21,576	-	-	21,576
Community and economic development	-	-	20,480	20,480
Recreation and culture	94,295	-	-	94,295
Other	12,681	-	-	12,681
Capital outlay	126,112	-	-	126,112
Debt service				
Principal	98,040	-	-	98,040
Interest and fees	28,068	-	-	28,068
Total expenditures	<u>1,549,424</u>	<u>260,519</u>	<u>191,190</u>	<u>2,001,133</u>
Excess (deficiency) of revenues over expenditures	<u>(37,954)</u>	<u>(33,523)</u>	<u>(74,677)</u>	<u>(146,154)</u>
Other financing sources (uses):				
Transfers from (to) other funds	<u>(87,437)</u>	<u>31,705</u>	<u>55,732</u>	<u>-</u>
Changes in fund balances	(125,391)	(1,818)	(18,945)	(146,154)
Fund balances, beginning of year	<u>985,750</u>	<u>178,930</u>	<u>289,731</u>	<u>1,454,411</u>
Fund balances, end of year	<u>\$ 860,359</u>	<u>\$ 177,112</u>	<u>\$ 270,786</u>	<u>\$ 1,308,257</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, 2013

Changes in fund balances - total governmental funds			\$ (146,154)
Change in net position reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.			
Capital outlay		239,337	
Less depreciation expense		<u>(138,091)</u>	101,246
Repayments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net position.			98,040
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 governmental funds.			
Change in net OPEB obligation		1,469	
Change in compensated absences payable		11,660	
Change in accrued interest payable		<u>2,114</u>	<u>15,243</u>
Change in net position of governmental activities			<u>\$ 68,375</u>

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

CITY OF VASSAR

PROPRIETARY FUNDS STATEMENT OF NET POSITION

June 30, 2013

	<i>Business-type Activities</i>			<i>Total</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Nonmajor Stormwater Management Fund</i>	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 370,155	\$ 1,083,124	\$ 108,001	\$ 1,561,280
Accounts receivable	128,562	43,717	10,225	182,504
Special assessments receivable	905	1,682	-	2,587
Prepaid expenses	4,896	898	-	5,794
Total current assets	<u>504,518</u>	<u>1,129,421</u>	<u>118,226</u>	<u>1,752,165</u>
Noncurrent assets:				
Special assessments receivable	3,679	6,832	-	10,511
Capital assets:				
Nondepreciable capital assets	41,983	9,587	-	51,570
Depreciable capital assets, net	3,924,426	1,494,588	55,787	5,474,801
Deferred financing costs	24,492	18,933	-	43,425
Total noncurrent assets	<u>3,994,580</u>	<u>1,529,940</u>	<u>55,787</u>	<u>5,580,307</u>
Total assets	<u>4,499,098</u>	<u>2,659,361</u>	<u>174,013</u>	<u>7,332,472</u>
Liabilities:				
Current liabilities:				
Accounts payable	14,549	6,708	6,327	27,584
Accrued interest payable	1,840	1,423	-	3,263
Current portion of long-term debt	38,916	30,084	-	69,000
Total current liabilities	<u>55,305</u>	<u>38,215</u>	<u>6,327</u>	<u>99,847</u>
Noncurrent liabilities:				
Compensated absences payable	14,398	16,615	-	31,013
Net OPEB obligation	24,452	4,247	-	28,699
Long-term debt	297,228	229,772	-	527,000
Total noncurrent liabilities	<u>336,078</u>	<u>250,634</u>	<u>-</u>	<u>586,712</u>
Total liabilities	<u>391,383</u>	<u>288,849</u>	<u>6,327</u>	<u>686,559</u>
Net position:				
Net investment in capital assets	3,630,265	1,244,319	55,787	4,930,371
Unrestricted	477,450	1,126,193	111,899	1,715,542
Total net position	<u>\$ 4,107,715</u>	<u>\$ 2,370,512</u>	<u>\$ 167,686</u>	<u>\$ 6,645,913</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, 2013

	<i>Business-type Activities</i>			<i>Total</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Nonmajor Stormwater Management Fund</i>	
Operating revenues:				
Charges for services	\$ 639,462	\$ 371,465	\$ 50,779	\$ 1,061,706
Penalties	-	11,321	-	11,321
Other	10,431	1,170	5	11,606
Total operating revenues	<u>649,893</u>	<u>383,956</u>	<u>50,784</u>	<u>1,084,633</u>
Operating expenses:				
Personnel	177,676	90,546	11,333	279,555
Fringe benefits	101,474	22,864	828	125,166
Supplies	23,002	31,483	236	54,721
Contracted services	11,682	803	3,090	15,575
Administrative expense	24,000	24,000	3,000	51,000
Communication	2,018	619	-	2,637
Fees and permits	2,907	2,499	-	5,406
Conference and travel	790	240	-	1,030
Insurance	5,547	2,831	-	8,378
Utilities	85,841	44,412	-	130,253
Repairs and maintenance	51,336	14,190	1,299	66,825
Equipment rental	2,645	10,302	7,412	20,359
Other services and supplies	4,385	7,735	-	12,120
Depreciation	243,913	68,795	1,393	314,101
Total operating expenses	<u>737,216</u>	<u>321,319</u>	<u>28,591</u>	<u>1,087,126</u>
Operating income (loss)	<u>(87,323)</u>	<u>62,637</u>	<u>22,193</u>	<u>(2,493)</u>
Non-operating revenues (expenses):				
State grants	-	2,485	-	2,485
Interest income	435	1,365	66	1,866
Special assessments interest	26	49	-	75
Loan repayments	2,954	-	(2,954)	-
Contribution from EDC	15,938	-	-	15,938
Interest and amortization expense	(12,991)	(17,401)	-	(30,392)
Net non-operating revenues	<u>6,362</u>	<u>(13,502)</u>	<u>(2,888)</u>	<u>(10,028)</u>
Changes in net position	<u>(80,961)</u>	<u>49,135</u>	<u>19,305</u>	<u>(12,521)</u>
Net position, beginning of year	<u>4,188,676</u>	<u>2,321,377</u>	<u>148,381</u>	<u>6,658,434</u>
Net position, end of year	<u>\$ 4,107,715</u>	<u>\$ 2,370,512</u>	<u>\$ 167,686</u>	<u>\$ 6,645,913</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, 2013

	<i>Business-type Activities</i>			<i>Total</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Nonmajor Stormwater Management Fund</i>	
Cash flows from operating activities:				
Cash received from customers	\$ 639,244	\$ 382,435	\$ 50,279	\$ 1,071,958
Cash payments to employees	(177,640)	(88,884)	(11,333)	(277,857)
Cash payments to suppliers for goods and services	(310,024)	(174,200)	(30,381)	(514,605)
Net cash provided by operating activities	<u>151,580</u>	<u>119,351</u>	<u>8,565</u>	<u>279,496</u>
Cash flows from non-capital financing activities:				
State grants	-	2,485	-	2,485
Loan repayments	2,954	-	(2,954)	-
Contribution from EDC	15,938	-	-	15,938
Net cash provided (used) by non-capital financing activities	<u>18,892</u>	<u>2,485</u>	<u>(2,954)</u>	<u>18,423</u>
Cash flows from capital and related financing activities:				
Special assessments interest	26	49	-	75
Acquisition of capital assets	(8,561)	-	(16,492)	(25,053)
Principal payments	(126,307)	(97,693)	-	(224,000)
Interest paid	(28,548)	(22,027)	-	(50,575)
Net cash used by capital and related financing activities	<u>(163,390)</u>	<u>(119,671)</u>	<u>(16,492)</u>	<u>(299,553)</u>
Cash flows from investing activities:				
Interest received	435	1,365	66	1,866
Net increase (decrease) in cash and cash equivalents	7,517	3,530	(10,815)	232
Cash and cash equivalents, beginning of year	<u>362,638</u>	<u>1,079,594</u>	<u>118,816</u>	<u>1,561,048</u>
Cash and cash equivalents, end of year	<u>\$ 370,155</u>	<u>\$ 1,083,124</u>	<u>\$ 108,001</u>	<u>\$ 1,561,280</u>

continued

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

CITY OF VASSAR

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2013

	<u><i>Sewer Fund</i></u>	<u><i>Water Fund</i></u>	<u><i>Stormwater Management Fund</i></u>	<u><i>Total</i></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (87,323)	\$ 62,637	\$ 22,193	\$ (2,493)
Adjustments:				
Depreciation	243,913	68,795	1,393	314,101
Change in assets and liabilities:				
Accounts receivable	(11,400)	(2,915)	(505)	(14,820)
Special assessments receivable	751	1,394	-	2,145
Prepaid expenses	246	1,410	-	1,656
Accounts payable	5,357	(13,632)	(14,516)	(22,791)
Compensated absences payable	(6,190)	(1,449)	-	(7,639)
Net OPEB obligation	6,226	3,111	-	9,337
Net cash provided by operating activities	<u>\$ 151,580</u>	<u>\$ 119,351</u>	<u>\$ 8,565</u>	<u>\$ 279,496</u>

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

CITY OF VASSAR

FIDUCIARY FUNDS STATEMENT OF NET POSITION

June 30, 2013

	<i>Private Purpose Trust Fund</i>	<i>Retiree Health Plan OPEB Trust Fund</i>	<i>Agency Funds</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 18,593	\$ 18,593
Investments	-	24,795	-	24,795
Total assets	-	24,795	18,593	43,388
Liabilities:				
Accounts payable	-	-	18,593	18,593
Net position:				
Held in trust	-	24,795	-	24,795
Total net position	\$ -	\$ 24,795	\$ -	\$ 24,795

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

CITY OF VASSAR

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FUND NET POSITION

Year Ended June 30, 2013

	<i>Private Purpose Trust Fund</i>	<i>Retiree Health Plan OPEB Trust Fund</i>	<i>Total</i>
Additions:			
Employer contribution	\$ -	\$ 25,000	\$ 25,000
Investment income (loss)	<u>-</u>	<u>(205)</u>	<u>(205)</u>
Total additions	<u>-</u>	<u>24,795</u>	<u>24,795</u>
Deductions:			
Other	<u>2,877</u>	<u>-</u>	<u>2,877</u>
Net increase (decrease)	(2,877)	24,795	21,918
Net position, beginning of year	<u>2,877</u>	<u>-</u>	<u>2,877</u>
Net position, end of year	<u>\$ -</u>	<u>\$ 24,795</u>	<u>\$ 24,795</u>

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

CITY OF VASSAR

COMPONENT UNITS
STATEMENT OF NET POSITION

Year Ended June 30, 2013

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total</u></i>
Assets:			
Cash and cash equivalents	\$ 117,812	\$ 7,615	\$ 125,427
Capital assets:			
Nondepreciable capital assets	<u>-</u>	<u>52,663</u>	<u>52,663</u>
Total assets	<u>117,812</u>	<u>60,278</u>	<u>178,090</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	<u>5,250</u>	<u>-</u>	<u>5,250</u>
Net position:			
Investment in capital assets	-	52,663	52,663
Unrestricted	<u>112,562</u>	<u>7,615</u>	<u>120,177</u>
Total net position	<u>\$ 112,562</u>	<u>\$ 60,278</u>	<u>\$ 172,840</u>

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

CITY OF VASSAR

COMPONENT UNITS
STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

	<i><u>Economic Development Corporation</u></i>	<i><u>Downtown Development Authority</u></i>	<i><u>Total</u></i>
Revenues:			
General revenues:			
Property taxes	\$ 24,279	\$ 37,206	\$ 61,485
Interest and rents	98	-	98
Other	<u>-</u>	<u>2,788</u>	<u>2,788</u>
Total revenues	<u>24,377</u>	<u>39,994</u>	<u>64,371</u>
Expenses:			
Community and economic development	<u>40,871</u>	<u>61,235</u>	<u>102,106</u>
Change in net position	(16,494)	(21,241)	(37,735)
Net position, beginning of year	<u>129,056</u>	<u>81,519</u>	<u>210,575</u>
Net position, end of year	<u>\$ 112,562</u>	<u>\$ 60,278</u>	<u>\$ 172,840</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, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vassar was incorporated in 1945 and is located in Tuscola County, Michigan. 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 legislative body selects from among its members the Mayor and appoints a City Manager to administer the affairs of the City. The City provides the following services to approximately 2,700 residents as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and culture, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Vassar conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, these financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units column in the government-wide financial statements includes the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Economic Development Corporation - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Government-wide Financial Statements:

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

The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net position resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Major Street Fund – The Major Street Funds is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as major streets in the City.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities, and Equity:

Deposits 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, if any, are stated at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools, if any, to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Expenses – 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. 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 – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Distribution systems	20-50 years
Equipment	10-39 years
Sewer lines	50 years
Sewer treatment plant	40 years
Water mains	50 years
Wells	10 years
Equipment	5-25 years
Infrastructure	20-50 years
Vehicles	3-25 years

Compensated Absences – 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.

Department heads hired before April 1998 are paid for one-half (1/2) of their accumulated sick days (maximum accumulation is 120 days). Department heads hired after 1998 and clerical, DPW and police employees are paid for one-half (1/2) of their accumulated sick days (maximum accumulation is 90 days). Part-time employees are paid for one-half (1/2) of their accumulated sick days (maximum accumulation is 45 days). 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.

Long-term Obligations – In the government-wide financial statements and the proprietary 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 statement of net position.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Deferred Revenue – Governmental and proprietary funds may defer revenue recognition in connection with resources that have been received but not yet earned.

Fund Equity – In the fund financial statements, fund balance may be presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent:

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

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the City Council, as the City's highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as majority vote or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment.

Assigned – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. However, unassigned fund balances may also include negative balances in other governmental funds.

When the City incurs expenditures for purposes for which various fund balance classifications can be used, it is the City's policy to use the restricted funds balance first, then assigned fund balance, and finally unassigned fund balance.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied on July 1 and are due without penalty on or before July 31. The City bills and collects its own property taxes as well as those of Vassar Public Schools, Tuscola Intermediate School District and Tuscola County. Collections of these taxes and remittance of them to the entities are accounted for in the tax collection agency fund. City property tax revenues are recognized in the general fund. The delinquent real property taxes of the City are purchased by Tuscola County.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

The 2012 taxable valuation of the City totaled \$43,651,558 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 17.0000 mills for the City's operating purposes.

The City also receives road taxes levied by Tuscola County that are recognized as revenue in the Major and Local Street Funds.

Other Postemployment Benefit Costs:

The City pays the monthly premium for qualified retirees for postemployment health care benefits. The City, as of June 30, 2013, obtained an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as the premium is paid. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution less any current year paid benefits, adjusted for interest and "adjustment to the ARC" on the beginning of the year underpaid amount, if any. See the related footnote on pages 38-40.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

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

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency and Internal Service Funds.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

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					
Other	\$ 12,500	\$	12,681	\$	181
Transfers to other funds	87,205		87,437		232

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 had \$2,900,500 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$250,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. 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	\$ 24,795	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	\$ 24,795	Not Rated	N/A

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 4: CAPITAL ASSETS

Capital assets activity of the primary government and component units at June 30, 2013 was as follows:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Governmental activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 554,654	\$ -	\$ -	\$ 554,654
Construction in progress - infrastructure	126,059	60,136	(126,059)	60,136
Total nondepreciable capital assets	<u>680,713</u>	<u>60,136</u>	<u>(126,059)</u>	<u>614,790</u>
<i>Depreciable capital assets:</i>				
Buildings and improvements	1,331,096	-	-	1,331,096
Furniture and equipment	239,297	-	-	239,297
Equipment	987,529	-	-	987,529
Infrastructure	2,402,812	276,260	-	2,679,072
Vehicles	661,525	29,000	-	690,525
Total depreciable capital assets	5,622,259	305,260	-	5,927,519
Accumulated depreciation	(2,687,031)	(138,091)	-	(2,825,122)
Depreciable capital assets, net	<u>2,935,228</u>	<u>167,169</u>	<u>-</u>	<u>3,102,397</u>
Governmental activities, capital assets, net	<u>\$ 3,615,941</u>	<u>\$ 227,305</u>	<u>\$ (126,059)</u>	<u>\$ 3,717,187</u>
Business-type activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 43,009	\$ -	\$ -	\$ 43,009
Construction in progress	20,844	8,561	(20,844)	8,561
Total nondepreciable capital assets	<u>63,853</u>	<u>8,561</u>	<u>(20,844)</u>	<u>51,570</u>
<i>Depreciable capital assets:</i>				
Equipment	631,107	-	-	631,107
Land improvements	60,490	37,336	-	97,826
Sewer lines	1,244,002	-	-	1,244,002
Sewer treatment plant	7,856,724	-	-	7,856,724
Water buildings, tank and tower	598,252	-	-	598,252
Water mains and wells	2,342,157	-	-	2,342,157
Total depreciable capital assets	12,732,732	37,336	-	12,770,068
Accumulated depreciation	(6,981,166)	(314,101)	-	(7,295,267)
Depreciable capital assets, net	<u>5,751,566</u>	<u>(276,765)</u>	<u>-</u>	<u>5,474,801</u>
Business-type activities, capital assets, net	<u>\$ 5,815,419</u>	<u>\$ (268,204)</u>	<u>\$ (20,844)</u>	<u>\$ 5,526,371</u>
Component units:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 52,663	\$ -	\$ -	\$ 52,663

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 4: CAPITAL ASSETS, CONTINUED

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

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
General government	\$ 8,008	\$ -
Public safety	26,811	-
Public works	73,798	-
Recreation and culture	29,474	-
Sewer	-	243,913
Water	-	68,795
Stormwater management	-	1,393
	<u>\$ 138,091</u>	<u>\$ 314,101</u>

NOTE 5: LONG-TERM LIABILITIES

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. Other long-term obligations include compensated absences and net OPEB obligation.

The following is a summary of long-term liabilities transactions for the year ended June 30, 2013:

	<i>July 1, 2012</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30, 2013</i>	<i>Due Within One Year</i>
Governmental activities:					
Notes and Agreements:					
2004 Rural Development Loan - Fire Truck, due in annual amounts ranging from \$7,000 to \$8,700 plus interest at 4.75% through 2020.	\$ 63,700	\$ -	\$ (63,700)	\$ -	\$ -
2006 County Contract Financing, due in annual amounts of \$34,341 plus interest at 5.317% through 2026.	480,710	-	(34,340)	446,370	34,340
Compensated absences	67,697	1,746	(13,406)	56,037	-
Net OPEB obligation	<u>63,182</u>	<u>50,227</u>	<u>(51,696)</u>	<u>61,713</u>	<u>-</u>
Total governmental activities - long-term liabilities	<u>\$ 675,289</u>	<u>\$ 51,973</u>	<u>\$ (163,142)</u>	<u>\$ 564,120</u>	<u>\$ 34,340</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 5: LONG-TERM LIABILITIES, CONTINUED

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds Payable:					
1998 Series - Water Supply and Sewage Disposal System Revenue Refunding Bonds, due in annual amounts ranging from \$45,000 to \$180,000 plus interest ranging from 4.90-5.25% through 2027.	\$ 820,000	\$ -	\$ (820,000)	\$ -	\$ -
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.	-	671,000	(75,000)	596,000	69,000
Compensated absences	38,652	1,975	(9,614)	31,013	-
Net OPEB obligation	<u>19,362</u>	<u>16,743</u>	<u>(7,406)</u>	<u>28,699</u>	<u>-</u>
Total business-type activities - long-term liabilities	<u>\$ 878,014</u>	<u>\$ 689,718</u>	<u>\$ (912,020)</u>	<u>\$ 655,712</u>	<u>\$ 69,000</u>

Annual debt service requirements to maturity for all outstanding debt (excluding compensated absences and net OPEB obligation) as of June 30, 2013 are as follows:

<i>Year Ended</i> <u>June 30,</u>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 34,340	\$ 23,739	\$ 58,079	\$ 69,000	\$ 12,669	\$ 81,669
2015	34,340	21,913	56,253	68,000	11,169	79,169
2016	34,340	20,086	54,426	68,000	9,680	77,680
2017	34,340	18,310	52,650	63,000	8,212	71,212
2018	34,340	16,434	50,774	61,000	6,844	67,844
2019-2023	171,700	54,810	226,510	267,000	13,896	658,470
2024-2027	<u>102,970</u>	<u>10,963</u>	<u>113,933</u>	<u>-</u>	<u>-</u>	<u>658,470</u>
	<u>\$ 446,370</u>	<u>\$ 166,255</u>	<u>\$ 612,625</u>	<u>\$ 596,000</u>	<u>\$ 62,470</u>	<u>\$ 1,626,670</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 6: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's primary government and component units in the aggregate are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Receivables:				
Accounts receivable	\$ 17,802	\$ 182,504	\$ 200,306	\$ -
Special assessments receivable				
Current portion	218	2,587	2,805	-
Long-term portion	1,108	10,511	11,619	-
Notes/Loans receivable				
Current portion	3,135	-	3,135	-
Long-term portion	28,882	-	28,882	-
Intergovernmental	86,090	-	86,090	-
Total receivables	<u>\$ 137,235</u>	<u>\$ 195,602</u>	<u>\$ 332,837</u>	<u>\$ -</u>
Accounts payable and accrued expenses:				
Accounts payable	\$ 31,790	\$ 27,584	\$ 59,374	\$ 5,250
Intergovernmental	-	-	-	-
Deposits payable	20	-	20	-
Accrued interest payable	13,848	3,263	17,111	-
Total accounts payable and accrued expenses	<u>\$ 45,658</u>	<u>\$ 30,847</u>	<u>\$ 76,505</u>	<u>\$ 5,250</u>

NOTE 7: INTERFUND BALANCES AND TRANSFERS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Cemetery Perpetual Care Fund	<u>\$ 1,221</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.

Interfund transfers reported in the fund statements were as follows:

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>
General Fund from (to) Major Street Fund	\$ (31,705)	\$ 31,705	\$ -
General Fund from (to) Nonmajor Governmental Funds	(56,000)	-	56,000
General Fund from (to) Nonmajor Governmental Funds	268	-	(268)
	<u>\$ (87,437)</u>	<u>\$ 31,705</u>	<u>\$ 55,732</u>

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 7: INTERFUND BALANCES AND TRANSFERS, CONTINUED

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.

NOTE 8: 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 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended June 30, 2013 were as follows:

<u>Valuation Division</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
General - Non-union	14.06%	4.70%
Police - Non-union	17.73%	4.80%
General - Union	10.86%	4.70%
Clerical - Union	0.00%	4.70%
Police - POAM	10.71%	4.80%

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS, CONTINUED

Annual Pension Costs – For year ended June 30, 2013, the City’s annual pension cost of \$97,524 for the plan was equal to the required and actual contribution. The employees contributed \$37,856. The annual required contribution was determined as part of an actuarial valuation at December 31, 2010, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 28 years.

Three year trend information as of June 30, follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension cost	\$ 97,524	\$ 98,425	\$ 111,621
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Funded Status – As of December 31, 2012, the most recent actuarial valuation date, the plan was 83 percent funded. The actuarial accrued liability for benefits was \$5,891,744, and the actuarial value of assets was \$4,876,347, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,015,397. The covered payroll (annual payroll of active employees covered by the plan) was \$797,406, and the ratio of the UAAL to the covered payroll was 127 percent.

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

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No. 45 established standards for measurement, recognition and display of other postemployment benefits (OPEB) and related liabilities and note disclosures in other plans in which the City participates. Current year expenditures include the current year “pay-as-you-go” amount and the recognition of the unfunded current year annual required contribution (ARC) in the governmental activities and enterprise funds. Disclosures required by GASB Statement No. 45 follow.

Plan Description – The City provides pre-65 medical and prescription drug coverage through its active plan and post-65 coverage through a Medicare Advantage plan and dental coverage is provided for retirees as well as vision for pre-65 retirees. Department heads retiring after July 1, 2012 pay 30% of pre-65 medical, dental and vision premium and Medicare Advantage premium and current retiree premiums paid 100% by the City. Future retirees will pay 30% of pre-65 medical, dental and vision premiums. Department heads promoted after 2012 will only receive \$150 monthly retiree stipend. Department heads hired after July 1, 2012 will not receive retiree coverage.

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$34,102 for six retirees who are currently receiving the benefits. During the fiscal year ended June 30, 2013, the City also made a \$25,000 advance funding contribution to the MERS Retiree Health Funding Plan.

CITY OF VASSAR

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

The computed annual required contribution and actual funding are summarized as follows:

For the Year Ended June 30, 2013

Annual required contribution (recommended)	\$ 66,949
Interest on the prior year's net OPEB obligation	3,302
Less adjustment to the annual required contribution	<u>(3,281)</u>
Annual OPEB cost	66,970
Amounts contributed:	
Payments of current premiums	(34,102)
Advance funding	<u>(25,000)</u>
Increase in net OPEB obligation	7,868
OPEB obligation, beginning of year	<u>82,544</u>
OPEB obligation, end of year	<u>\$ 90,412</u>

The net OPEB obligation is recorded as follows:

Governmental activities	\$ 61,713
Business-type activities	<u>28,699</u>
Total	<u>\$ 90,412</u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

<i>Fiscal Year Ending</i>	<i>Actuarial Valuation Date</i>	<i>Annual OPEB Cost</i>	<i>Contribution</i>	<i>Percentage Contributed</i>	<i>Net OPEB Obligation</i>
6/30/2013	6/30/2013	\$ 66,970	\$ 59,102	88%	\$ 90,412
6/30/2012	12/31/2008	55,647	20,790	37%	82,544
6/30/2011	12/31/2008	49,974	24,122	48%	47,687

Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$950,470, which was approximately 2.6% funded. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. During the 2012-2013, the City made a \$25,000 contribution to the OPEB Trust Fund, which was established in the current year. The actuarial value of the Trust Fund assets has not been determined. The market value of the Trust Fund assets at June 30, 2013 was \$24,795.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 10: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. In future years, and if the plan was being funded, the schedule of funding progress would present multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2013 calculation, the individual entry-age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return. For purposes of the calculating the annual required contribution (ARC) amount, the UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

NOTE 11: REFUNDING BONDS

The 2012 Limited Tax General Obligation Refunding Bonds were issued on July 12, 2012 in the amount of \$671,000. Proceeds from this bond issue in addition to other City monies were used to pay off (refund) the balance owed on the 1998 Series Water Supply and Sewage Disposal System Revenue Refunding Bonds. The 1998 Series Water Supply and Sewage Disposal System Revenue Refunding Bonds bore an interest rate, on payments through 2027, at 5.125-5.25%. The new bonds bear interest at 2.19% and are due in annual installments ranging from \$61,000 to \$84,000 through April 1, 2022. After a payment of \$190,063 from the City's debt reserve cash funds, the gross difference between the future cash flows required to service the old 1998 debt and the cash flows required to service the new 2012 debt is \$442,630.

The economic gain resulting from the transaction, which is the difference between the present value of the old debt service and the present value of the refunding debt service, is \$154,681.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF VASSAR

SCHEDULE OF FUNDING PROGRESS FOR THE PENSION PLAN

Year Ended June 30, 2013

<u>Actuarial Valuation Date</u>	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>
Actuarial Value of Assets	\$ 4,876,347	\$ 4,809,970	\$ 4,870,375
Actuarial Accrued Liability (AAL)	5,891,744	5,770,409	5,692,364
Unfunded AAL (UAAL)	1,015,397	960,439	821,989
Funded Ratio	83%	83%	86%
Covered Payroll	797,406	877,218	903,337
UAAL as a percentage of covered payroll	127%	109%	91%

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

Year Ended June 30, 2013

<u>Actuarial Valuation Date</u>	<u>6/30/13</u>	<u>12/31/08</u>
Actuarial Value of Assets/Market Value	\$ 24,795	\$ -
Actuarial Accrued Liability (AAL)	950,470	955,940
Unfunded AAL (UAAL)	925,675	955,940
Funded Ratio	2.6%	0%
Covered Payroll	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A

CITY OF VASSAR

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 736,494	\$ 741,748	\$ 736,036	\$ (5,712)
Licenses and permits	8,500	8,500	12,886	4,386
State grants	199,090	324,260	322,258	(2,002)
Contributions from other units	70,688	71,088	78,587	7,499
Charges for services	236,963	231,933	244,838	12,905
Fines and forfeits	3,700	3,000	2,447	(553)
Interest and rents	74,697	85,292	71,183	(14,109)
Other revenue	26,804	44,020	43,235	(785)
Total revenues	1,356,936	1,509,841	1,511,470	1,629
Current				
General government	434,347	437,384	419,542	(17,842)
Public safety	528,083	545,850	490,916	(54,934)
Public works	257,655	266,605	258,194	(8,411)
Health and welfare	21,576	21,576	21,576	-
Recreation and culture	101,331	120,407	94,295	(26,112)
Other	12,500	12,500	12,681	181
Capital outlay	204,261	132,784	126,112	(6,672)
Debt service	127,232	127,730	126,108	(1,622)
Total expenditures	1,686,985	1,664,836	1,549,424	(115,412)
Excess (deficiency) of revenues over expenditures	(330,049)	(154,995)	(37,954)	117,041
Other financing sources (uses):				
Transfers from (to) other funds	(24,500)	(87,205)	(87,437)	232
Change in fund balance	(354,549)	(242,200)	(125,391)	117,273
Fund balance, beginning of year	985,750	985,750	985,750	-
Fund balance, end of year	<u>\$ 631,201</u>	<u>\$ 743,550</u>	<u>\$ 860,359</u>	<u>\$ 117,273</u>

CITY OF VASSAR

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	<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	\$ 42,233	\$ 42,154	\$ 42,138	\$ (16)
Federal grants	-	33,555	33,132	(423)
State grants	153,036	153,036	151,648	(1,388)
Interest and rents	<u>300</u>	<u>200</u>	<u>78</u>	<u>(122)</u>
Total revenues	<u>195,569</u>	<u>228,945</u>	<u>226,996</u>	<u>(1,949)</u>
Expenditures:				
Current				
Public works	<u>382,868</u>	<u>342,697</u>	<u>260,519</u>	<u>(82,178)</u>
Excess (deficiency) of revenues over expenditures	<u>(187,299)</u>	<u>(113,752)</u>	<u>(33,523)</u>	<u>80,229</u>
Other financing sources (uses):				
Transfers from (to) other funds	<u>-</u>	<u>31,705</u>	<u>31,705</u>	<u>-</u>
Change in fund balance	(187,299)	(82,047)	(1,818)	80,229
Fund balance, beginning of year	<u>178,930</u>	<u>178,930</u>	<u>178,930</u>	<u>-</u>
Fund balance, end of year	<u>\$ (8,369)</u>	<u>\$ 96,883</u>	<u>\$ 177,112</u>	<u>\$ 80,229</u>

SUPPLEMENTAL INFORMATION

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2013

	<i>Special Revenue Funds</i>				
	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Cool Cities Fund</i>	<i>DDA Loan Revolving Fund</i>
Assets:					
Cash and cash equivalents	\$ 80,402	\$ 21,939	\$ 20	\$ 1,605	\$ 1,431
Accounts receivable	-	-	-	-	-
Special assessments receivable	1,326	-	-	-	-
Notes receivable	-	-	-	-	20,352
Due from other governmental units	9,277	3,503	-	-	-
Prepaid expenditures	2,565	-	-	-	-
Total assets	<u>\$ 93,570</u>	<u>\$ 25,442</u>	<u>\$ 20</u>	<u>\$ 1,605</u>	<u>\$ 21,783</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 1,232	\$ 111	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	<u>1,232</u>	<u>111</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Nonspendable:					
Prepaid expenditures	2,565	-	-	-	-
Long term receivables	1,326	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Restricted for:					
Streets	88,447	25,331	-	-	-
Drug law enforcement	-	-	20	-	-
Community and economic development	-	-	-	1,605	21,783
Total fund balances	<u>92,338</u>	<u>25,331</u>	<u>20</u>	<u>1,605</u>	<u>21,783</u>
Total liabilities and fund balances	<u>\$ 93,570</u>	<u>\$ 25,442</u>	<u>\$ 20</u>	<u>\$ 1,605</u>	<u>\$ 21,783</u>

<i>Permanent Fund</i>	
<i>Cemetery Perpetual Care Fund</i>	
<u>Fund</u>	<u>Total</u>
\$ 130,530	\$ 235,927
400	400
-	1,326
-	20,352
-	12,780
-	2,565
<u>\$ 130,930</u>	<u>\$ 273,350</u>

\$ -	\$ 1,343
<u>1,221</u>	<u>1,221</u>
<u>1,221</u>	<u>2,564</u>

-	2,565
-	1,326
129,709	129,709
-	113,778
-	20
-	23,388
<u>129,709</u>	<u>270,786</u>
<u>\$ 130,930</u>	<u>\$ 273,350</u>

CITY OF VASSAR

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended June 30, 2013

	<i>Special Revenue Funds</i>				
	<i>Local Street Fund</i>	<i>Highway Fund</i>	<i>Drug Law Enforcement Fund</i>	<i>Cool Cities Fund</i>	<i>DDA Loan Revolving Fund</i>
Revenues:					
Property taxes	\$ 20,975	\$ -	\$ -	\$ -	\$ -
State grants	58,463	30,433	-	-	-
Interest and rents	36	12	-	1	22
Other revenue	193	-	-	1,975	735
Total revenues	<u>79,667</u>	<u>30,445</u>	<u>-</u>	<u>1,976</u>	<u>757</u>
Expenditures:					
Current					
Public works	142,554	28,156	-	-	-
Community and economic development	-	-	-	2,512	17,968
Total expenditures	<u>142,554</u>	<u>28,156</u>	<u>-</u>	<u>2,512</u>	<u>17,968</u>
Excess (deficiency) of revenues over expenditures	<u>(62,887)</u>	<u>2,289</u>	<u>-</u>	<u>(536)</u>	<u>(17,211)</u>
Other financing sources (uses):					
Transfers from (to) other funds	<u>56,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in fund balances	(6,887)	2,289	-	(536)	(17,211)
Fund balances, beginning of year,	<u>99,225</u>	<u>23,042</u>	<u>20</u>	<u>2,141</u>	<u>38,994</u>
Fund balances, end of year	<u>\$ 92,338</u>	<u>\$ 25,331</u>	<u>\$ 20</u>	<u>\$ 1,605</u>	<u>\$ 21,783</u>

<i>Permanent</i>	
<u><i>Fund</i></u>	
<i>Cemetery</i>	
<i>Perpetual</i>	
<u><i>Care</i></u>	
<u><i>Fund</i></u>	<u><i>Total</i></u>
\$ -	\$ 20,975
-	88,896
268	339
<u>3,400</u>	<u>6,303</u>
<u>3,668</u>	<u>116,513</u>
-	170,710
<u>-</u>	<u>20,480</u>
<u>-</u>	<u>191,190</u>
<u>3,668</u>	<u>(74,677)</u>
<u>(268)</u>	<u>55,732</u>
3,400	(18,945)
<u>126,309</u>	<u>289,731</u>
<u>\$ 129,709</u>	<u>\$ 270,786</u>

CITY OF VASSAR

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2013

2006 COUNTY CONTRACT FINANCING

Issue dated August 1, 2006 in the amount of	\$	686,826
Less: Principal paid in prior years		(206,116)
Principal paid in current year		<u>(34,340)</u>
Balance payable at June 30, 2013	\$	<u>446,370</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due December 1</i>	<i>Interest due December 1</i>	<i>Total Annual Requirement</i>
2014	5.317%	\$ 34,340	\$ 23,739	\$ 58,079
2015	5.317%	34,340	21,913	56,253
2016	5.317%	34,340	20,086	54,426
2017	5.317%	34,340	18,310	52,650
2018	5.317%	34,340	16,434	50,774
2019	5.317%	34,340	14,608	48,948
2020	5.317%	34,340	12,782	47,122
2021	5.317%	34,340	10,986	45,326
2022	5.317%	34,340	9,130	43,470
2023	5.317%	34,340	7,304	41,644
2024	5.317%	34,340	5,478	39,818
2025	5.317%	34,340	3,662	38,002
2026	5.317%	<u>34,290</u>	<u>1,823</u>	<u>36,113</u>
		<u>\$ 446,370</u>	<u>\$ 166,255</u>	<u>\$ 612,625</u>

CITY OF VASSAR

BUSINESS-TYPE ACTIVITIES
SCHEDULE OF INDEBTEDNESS

June 30, 2013

2012 LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS

Issue dated July 12, 2012 in the amount of	\$ 671,000
Less: Principal paid in prior years	-
Principal paid in current year	<u>(75,000)</u>
Balance payable at June 30, 2013	<u>\$ 596,000</u>

Balance payable as follows:

<u><i>Fiscal</i></u> <u><i>Year Ended</i></u>	<u><i>Interest</i></u> <u><i>Rate</i></u>	<u><i>Principal due</i></u>	<u><i>Interest due</i></u>	<u><i>Total</i></u> <u><i>Annual</i></u> <u><i>Requirement</i></u>
2014	2.190%	\$ 69,000	\$ 12,669	\$ 81,669
2015	2.190%	68,000	11,169	79,169
2016	2.190%	68,000	9,680	77,680
2017	2.190%	63,000	8,212	71,212
2018	2.190%	61,000	6,844	67,844
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%	84,000	1,380	85,380
		<u>\$ 596,000</u>	<u>\$ 62,470</u>	<u>\$ 658,470</u>

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

Sewer Fund	\$ 336,144
Water Fund	<u>259,856</u>
	<u>\$ 596,000</u>



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

To the City Council
City of 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, 2013, 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 September 12, 2013.

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
September 12, 2013