

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date		Date Audit Report Submitted to State			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO Check each applicable box below.** (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>David W. Huntington</i>		Printed Name		License Number

# **City of Fraser, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Fraser, Michigan

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# City of Fraser, Michigan

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## Independent Auditor's Report

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

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 City of Fraser, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fraser's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 City of Fraser, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules of the General Fund, the Major Streets Fund, and the Drug Forfeiture Fund, the pension system schedule of funding progress, and the pension system schedule of employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fraser's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 29, 2007

# City of Fraser, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of City of Fraser, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are presented on a full accrual basis and designed to present a long-term view of the City's finances.

Fund financial statements follow the above-mentioned statements. They are presented on a modified accrual basis and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide financial statements.

The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for benefit of those outside of the government.

### The City of Fraser as a Whole

The City's combined net assets increased by \$640,000, from \$23.237 million at June 30, 2006 to \$23.877 million at June 30, 2007. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$533,000 in net assets, or 3.6 percent, during fiscal year 2007. This increase was primarily the result of continued diligence in the area of expenditure control, disciplined budgeting practices, and continued growth in property values. The business-type activities experienced a \$107,000 increase in net assets. This was primarily due to capitalizing \$171,241 of water and sewer lines contributed by developers. In a condensed format, the table below shows the comparison of assets (in thousands of dollars) as of June 30, 2007 to the prior year:

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

TABLE I (in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current assets	\$ 6,029	\$ 5,746	\$ 1,419	\$ 1,775	\$ 7,448	\$ 7,521
Noncurrent assets	<u>20,513</u>	<u>19,942</u>	<u>9,816</u>	<u>9,740</u>	<u>30,329</u>	<u>29,682</u>
Total assets	26,542	25,688	11,235	11,515	37,777	37,203
<b>Liabilities</b>						
Current liabilities	2,140	1,568	537	769	2,677	2,337
Long-term liabilities	<u>8,991</u>	<u>9,242</u>	<u>2,232</u>	<u>2,387</u>	<u>11,223</u>	<u>11,629</u>
Total liabilities	<u>11,131</u>	<u>10,810</u>	<u>2,769</u>	<u>3,156</u>	<u>13,900</u>	<u>13,966</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	12,531	11,970	7,390	7,158	19,921	19,128
Restricted	2,385	2,125	-	-	2,385	2,125
Unrestricted (deficit)	<u>495</u>	<u>783</u>	<u>1,076</u>	<u>1,201</u>	<u>1,571</u>	<u>1,984</u>
Total net assets	<u>\$ 15,411</u>	<u>\$ 14,878</u>	<u>\$ 8,466</u>	<u>\$ 8,359</u>	<u>\$ 23,877</u>	<u>\$ 23,237</u>

Unrestricted net assets of the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$495,000 at June 30, 2007. This represents an decrease of \$288,000.



# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2007 and 2006:

TABLE 2

	Governmental		Business-type		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,790	\$ 2,852	\$ 4,674	\$ 4,944	\$ 7,464	\$ 7,796
Operating grants and contributions	872	893	-	-	872	893
Capital grants and contributions	806	1,016	93	242	899	1,258
General revenue:						
Property taxes	11,134	10,669	-	-	11,134	10,669
State-shared revenue	1,450	1,481	-	-	1,450	1,481
Unrestricted investment earnings	437	332	62	42	499	374
Transfers and other revenue	310	240	(132)	(76)	178	164
Total revenue	17,799	17,483	4,697	5,152	22,496	22,635
<b>Program Expenses</b>						
General government	3,658	3,230	-	-	3,658	3,230
Public safety	7,851	7,605	-	-	7,851	7,605
Public works	3,374	3,137	-	-	3,374	3,137
Recreation	1,761	1,359	-	-	1,761	1,359
Community and economic development	304	322	-	-	304	322
Interest on long-term debt	318	246	-	-	318	246
Water and sewer	-	-	4,207	4,047	4,207	4,047
Senior housing	-	-	383	408	383	408
Total program expenses	17,266	15,899	4,590	4,455	21,856	20,354
<b>Change in Net Assets</b>	<b>\$ 533</b>	<b>\$ 1,584</b>	<b>\$ 107</b>	<b>\$ 697</b>	<b>\$ 640</b>	<b>\$ 2,281</b>

### Governmental Activities

The City's total governmental revenues increased by approximately \$316,000 over 2006. This is primarily attributed to property tax revenues generated from community growth, an increase in unrestricted investment earnings. The increases were offset somewhat by decreases in charges for services and operating grants. State-shared revenues have dropped by approximately \$31,000 and is indicative of the economic conditions throughout the state of Michigan.

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

Cash-related expenses decreased by approximately \$169,000 from the last fiscal year. The City was able to reduce the level of expenditures by continually monitoring the budget very closely, not filling vacancies, additional modifications in health insurance and prescription drug co-pays, and other cost-reduction programs. These cost-cutting measures helped offset general inflationary increases such as wage increases and general incidental costs.

During the year, the City continued to meet the actuarial contribution to the defined benefit pension system.

### Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund and Senior Citizens' Housing Complex Fund. The City provides its residents water, which is purchased from the City of Detroit Water System, and sewage treatment through a contract with the Macomb County Public Works offices that contract with the City of Detroit Water and Sewage System. The rates for both water and sewer billed to residents increased during the fiscal year. The Water and Sewer Fund generated an operating loss of approximately \$33,000 during 2007, which is a decrease of approximately \$400,000 from 2006. The declining operating results of the Water and Sewer Fund resulted primarily from a decrease in units billed to customers and an increase in the cost of sewage disposal of approximately \$171,000 from 2006. As has been noted, it appears that we may be entering a period where we will not likely see revenues on the order of the past several years. We will certainly see an increase in the fixed cost of sewage disposal as we begin to pay for the expenses for the 15 Mile Road repair work, which has increased from approximately \$191,000 in 2006 to \$483,000 in 2007. The Administrative Consent Order (ACO) issued by the Michigan Department of Environmental Quality (MDEQ) that requires the City to establish a program to correct sanitary sewer overflows has progressed. The water and sewer department is now on track to solving the sewage overflow problems and meeting the requirements of the ACO. We are close to an agreement with Macomb County that will provide excess capacity for the City. This agreement will require that the City expend upwards of \$5,000,000 to run a force main from the southeast section of the City to the 15 Mile Road interceptor in the northwest section of the City. The bonding cost for this project and the increase in sewage disposal costs for the excess capacity that is currently released as a sanitary sewer overflow will surely drive our water and sewer rates higher. You are reminded that the excess capacity issue is only a temporary fix in that it provides for a 10-year reprieve. Thereafter we may not be allowed the excess capacity which will force the City to review other alternatives to address our overall capacity.

In the meantime we will continue to invest in system maintenance projects that will further reduce inflow and infiltration. Despite this delay, the City is still undertaking projects that have the effect of further tightening our sanitary sewer system. The funds allocated to infrastructure improvements, however, may only serve as a transfer account if we continue to see reduced revenues. This will impact our efforts to tighten our system.

# City of Fraser, Michigan

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## Management's Discussion and Analysis (Continued)

### The City's Funds

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 to show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing, accounting for drug forfeiture revenue and expenditures, capital projects, and voted debt retirement funds.

The General Fund pays for most of the City's governmental services, the most significant being the public safety department, for which the City incurred expenditures of approximately \$7.4 million. The general operating millage levied by the City supports not only public safety funds but other major operating costs such as funding general government administration, recreation and community development, library, and others. The general operating millage does not support other costs such as water and sewer, Special Assessment Debt retirement, or General Obligation Bond issues supported by millage or fees.

It will continue to be noted in this MD&A that retiree health care is becoming an increasingly larger appropriation of the general operating budget since it has not been pre-funded in past years. Retiree healthcare costs will continue to become an increased burden to the General Fund in future years as costs continue to increase and the City is required to comply with new accounting standards that require the City to record a liability for future retiree health care, similar to the liabilities recorded by for-profit corporations during the 2008-2009 fiscal year. Expenditures for retiree health care are expected to increase by at least \$150,000 for the 2007-2008 fiscal year at an approximate cost of \$1,220,000.

In addition to the above, the City's pension system continues to draw a huge amount of funding to satisfy the defined benefit pension system for City employees. For the 2007-2008 fiscal year, we will contribute an estimated \$1,353,000 to our pension system, of which nearly \$900,000 will go toward the public safety employees.

### General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. This is accomplished through the institution of quarterly budget reviews that not only review the current fiscal year actual numbers to the budgeted amounts but also compares the expenditures to previous fiscal years.

# **City of Fraser, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets and Debt Administration**

At the end of fiscal year 2007, the City has \$35.9 million invested, before depreciation, in a wide range of capital assets, including land, building, public safety equipment, computer equipment, and water and sewer lines. The City is reporting infrastructure assets, which include roads, bridges, sidewalks, storm drains, and other assets in which the City has invested since its inception. The value of the infrastructure assets, net of depreciation, contained in this report is \$7.3 million at June 30, 2007.

Debt of \$8.63 million related to the construction of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets. Debt related to the acquisition and construction of the senior citizen housing complex totaling \$2.5 million is recorded as a liability in the business-type activities in the statement of net assets.

### **Economic Factors and Next Year's Budgets**

The City maintained the same tax millage rate for the 2006-2007 fiscal year as was levied in the 2005-2006 fiscal year. For the 2007-2008 fiscal year, the millage rate remained the same. This will be the third consecutive year that the millage rate has remained the same.

During the 2007-2008 fiscal year, the administration will continue to monitor revenues and expenditures and attempt to expend less than authorized by the budget. Since the City has already undertaken a staff reorganization and reduction program, it is unlikely that we will see any surplus at the end of the 2007-2008 fiscal year. It is unlikely that state-shared revenues will increase, and if the economic conditions continue to slide in the state of Michigan, we will likely see decreases on the same level as we saw for the 2006-2007 fiscal year.

A further concern relates to the current status of arbitration with the public safety units. An adverse arbitration award for wages that exceeds the assumptions found in the City's long-term financial plan will accelerate expenditures exceeding revenues by at least one fiscal year, which could mean a deficit as soon as the 2008-2009 fiscal year. The spin-off effects in the pension and benefits areas for these employees also contributes to this scenario. While the City has been successful in negotiating contracts with its Department of Public Works, clerical, 39<sup>th</sup> District Court, and dispatchers, public safety employees account for 47 percent of our total employees. If they do not accept the same contract terms as the groups who have settled, our financial condition will be greatly weakened.

The City continued to see modest residential, commercial, and industrial development in the past two years. This additional development has come to nearly a standstill as the economic downturn in the housing market continues and manufacturing jobs evaporate. The City has also seen an unprecedented increase in the number of industrial facility exemption certificate applications over the past year. This trend, however, has virtually come to an end in the last two months of the 2006-2007 fiscal year.

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

As a fully developed community, our reliance on increases in tax revenues will solely rely on inflationary increases in the taxable value of properties and the “uncapping” of taxable values for property transfers. With expenditures outstripping increases in taxable value, this trend will force another round of expenditure cuts to meet revenues. For example, the expenditure plan for the 2007-2008 fiscal year increased by 4.25 percent over the audited amount for the 2006-2007 fiscal year. Meanwhile, the taxable value for the 2007-2008 fiscal years only increased by 3.5 percent.

The 2007-2008 budget projects expenditures of approximately \$1.4 million for pension obligations. Given the fact that the largest plan, public safety employees, is at a funding ratio of 57 percent, we are concerned about continued increases to the City's required contributions to the pension plan to meet our unfunded actuarial accrued liability of approximately \$15 million.

As previously mentioned, the City must continue to work toward final resolution of the requirements found within the administrative consent order. A positive outcome will still result in expenditures of approximately \$5 million for ACO projects. In addition, our aging infrastructure will require at least the same commitment of funding as in the past and, based on a five-year capital improvement program for roads, water, and sewer, we will need to create new sources of funding.

The Water and Sewer Fund will be subject to additional increases in cost for water and sewer treatment as forecasted by the City of Detroit. Currently, approximately 48 percent of water and sewer rates are used to pay for the cost of purchasing water and for the disposal of our sewage. The 15 Mile Road interceptor collapse has been repaired and we are seeing large increases in our fixed costs under sewage disposal as payment toward this project and other expected sewer projects. Also, as mentioned above, infrastructure improvements to the City's water and sewer mains must remain a commitment as we examine future rates. Currently, over 21.9 percent of water and sewer rates goes toward infrastructure improvements. This level of funding must remain a priority despite continued pressure to hold the line on future rate increases. However, as mentioned above, if the downward revenue trend continues, this will place a greater burden on our commitment toward infrastructure projects as these funds are diverted to fixed cost requirements.

### **Contacting the City's Management**

This financial report is intended to provide the City's citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at city hall.

# City of Fraser, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 5,219,393	\$ 364,835	\$ 5,584,228	\$ 25,896
Receivables:				
Customers	-	1,054,612	1,054,612	-
Special assessments	347,575	-	347,575	-
Due from other governmental units	461,788	-	461,788	-
Prepaid costs and other assets	-	29,248	29,248	-
Restricted assets	12,424	-	12,424	-
Net pension asset (Note 10)	375,389	-	375,389	-
Capital assets - Nondepreciable (Note 5)	5,078,927	837,043	5,915,970	-
Capital assets - Depreciable - Net (Note 5)	<u>15,045,900</u>	<u>8,949,503</u>	<u>23,995,403</u>	-
Total assets	<u>26,541,396</u>	<u>11,235,241</u>	<u>37,776,637</u>	<u>25,896</u>
<b>Liabilities</b>				
Accounts payable	143,141	296,315	439,456	-
Accrued and other liabilities	545,364	68,137	613,501	1,732
Deferred revenue	12,424	-	12,424	-
Noncurrent liabilities (Note 7):				
Due within one year	1,438,986	172,314	1,611,300	-
Due in more than one year	<u>8,990,788</u>	<u>2,232,451</u>	<u>11,223,239</u>	-
Total liabilities	<u>11,130,703</u>	<u>2,769,217</u>	<u>13,899,920</u>	<u>1,732</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	12,531,411	7,389,612	19,921,023	-
Restricted:				
Retention pond	12,424	-	12,424	-
Local and major streets	906,115	-	906,115	-
Drug forfeiture	555,710	-	555,710	-
Debt service	534,139	-	534,139	-
Capital projects	477	-	477	-
Net pension asset	375,389	-	375,389	-
Unrestricted	<u>495,028</u>	<u>1,076,412</u>	<u>1,571,440</u>	<u>24,164</u>
Total net assets	<u>\$ 15,410,693</u>	<u>\$ 8,466,024</u>	<u>\$ 23,876,717</u>	<u>\$ 24,164</u>

# City of Fraser, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 3,658,350	\$ 1,834,761	\$ 54,872	\$ -
Public safety	7,850,563	663,453	33,329	-
Public works	3,374,461	12,340	765,015	805,878
Recreation	1,760,955	121,317	18,822	-
Community and economic development	304,374	157,719	-	-
Interest on long-term debt	317,735	-	-	-
Total governmental activities	17,266,438	2,789,590	872,038	805,878
Business-type activities:				
Sewage disposal and water supply	4,206,863	4,216,289	-	93,321
Senior housing	382,766	456,924	-	-
Total business-type activities	4,589,629	4,673,213	-	93,321
Total primary government	<u>\$ 21,856,067</u>	<u>\$ 7,462,803</u>	<u>\$ 872,038</u>	<u>\$ 899,199</u>
Component units:				
Economic Development Corporation	\$ 1,733	\$ 3,361	\$ -	\$ -
Downtown Development Authority	-	-	-	-
Total component units	<u>\$ 1,733</u>	<u>\$ 3,361</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees				
Transfers				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,768,717)	\$ -	\$ (1,768,717)	\$ -
(7,153,781)	-	(7,153,781)	-
(1,791,228)	-	(1,791,228)	-
(1,620,816)	-	(1,620,816)	-
(146,655)	-	(146,655)	-
(317,735)	-	(317,735)	-
(12,798,932)	-	(12,798,932)	-
-	102,747	102,747	-
-	74,158	74,158	-
-	176,905	176,905	-
(12,798,932)	176,905	(12,622,027)	-
-	-	-	1,628
-	-	-	-
-	-	-	1,628
11,134,212	-	11,134,212	-
1,449,737	-	1,449,737	-
437,562	61,600	499,162	1,016
178,094	-	178,094	-
131,912	(131,912)	-	-
13,331,517	(70,312)	13,261,205	1,016
532,585	106,593	639,178	2,644
14,878,108	8,359,431	23,237,539	21,520
<b>\$ 15,410,693</b>	<b>\$ 8,466,024</b>	<b>\$ 23,876,717</b>	<b>\$ 24,164</b>



# City of Fraser, Michigan

	General Fund	Drug Forfeiture Fund	Special Assessment - Debt Service Fund
<b>Assets</b>			
Cash and cash equivalents	\$ 3,350,791	\$ 559,183	\$ 110,959
Receivables - Special assessments	27,756	-	319,819
Due from other governmental units	336,171	-	-
Restricted assets	<u>12,424</u>	<u>-</u>	<u>-</u>
Total assets	<u><b>\$ 3,727,142</b></u>	<u><b>\$ 559,183</b></u>	<u><b>\$ 430,778</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 108,828	\$ -	\$ -
Accrued and other liabilities	434,284	3,473	-
Deferred revenue - Net	<u>40,180</u>	<u>-</u>	<u>319,819</u>
Total liabilities	583,292	3,473	319,819
<b>Fund Balances</b>			
Reserved for retention pond	12,424	-	-
Unreserved:			
Special Revenue Funds	-	555,710	-
Debt Service Funds	-	-	110,959
Capital Projects Funds	-	-	-
General Fund	<u>3,131,426</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>3,143,850</u>	<u>555,710</u>	<u>110,959</u>
Total liabilities and fund balances	<u><b>\$ 3,727,142</b></u>	<u><b>\$ 559,183</b></u>	<u><b>\$ 430,778</b></u>

**Governmental Funds  
Balance Sheet  
June 30, 2007**

Major Streets Fund	Other Governmental Funds	Total Governmental Funds
\$ 723,724	\$ 201,400	\$ 4,946,057
-	-	347,575
87,711	37,906	461,788
-	-	12,424
<u>\$ 811,435</u>	<u>\$ 239,306</u>	<u>\$ 5,767,844</u>
\$ 4,714	\$ 30,859	\$ 144,401
991	4,224	442,972
-	-	359,999
5,705	35,083	947,372
-	-	12,424
805,730	100,385	1,461,825
-	103,361	214,320
-	477	477
-	-	3,131,426
<u>805,730</u>	<u>204,223</u>	<u>4,820,472</u>
<u>\$ 811,435</u>	<u>\$ 239,306</u>	<u>\$ 5,767,844</u>

# City of Fraser, Michigan

## **Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2007**

**Fund Balance - Total Governmental Funds** \$ 4,820,472

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	19,411,548
Net pension assets in governmental activities are not reported in the funds	375,389
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	347,575
Bonds payable are not due and payable in the current period and are not reported in the funds	(9,254,982)
Compensated absences are included as a liability in governmental activities	(1,153,258)
Accrued interest is included as a liability in governmental activities	(100,896)
Internal Service Funds are included as part of governmental activities	<u>964,845</u>

**Net Assets of Governmental Activities** \$ 15,410,693

# City of Fraser, Michigan

	General Fund	Drug Forfeiture Fund	Special Assessment - Debt Service Fund
<b>Revenue</b>			
Property taxes	\$ 10,736,943	\$ -	\$ -
Federal sources	113,382	-	-
State sources	1,453,324	-	-
Interest on investments	323,855	33,256	29,541
Special assessments	-	-	70,967
District Court and Violations Bureau	1,095,717	-	-
Licenses, permits, and registrations	157,569	-	-
Other revenue	1,052,478	251,537	-
Total revenue	14,933,268	284,793	100,508
<b>Expenditures</b>			
Current:			
General government	2,849,260	-	-
Public safety	7,414,651	214,483	-
Public works	1,266,571	-	-
City parks and recreation	934,346	-	-
Other functions	1,144,709	-	-
Capital outlay	-	116,345	-
Debt service	-	-	98,790
Total expenditures	13,609,537	330,828	98,790
<b>Excess of Revenue Over (Under) Expenditures</b>	1,323,731	(46,035)	1,718
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	(1,077,667)	-	-
Total other financing sources (uses)	(1,077,667)	-	-
<b>Net Change in Fund Balances</b>	246,064	(46,035)	1,718
<b>Fund Balances - Beginning of year</b>	2,897,786	601,745	109,241
<b>Fund Balances - End of year</b>	<b><u>\$ 3,143,850</u></b>	<b><u>\$ 555,710</u></b>	<b><u>\$ 110,959</u></b>

**Governmental Funds  
Statement of Revenue, Expenditures, and  
Changes in Fund Balances  
Year Ended June 30, 2007**

Major Streets Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 412,169	\$ 11,149,112
-	-	113,382
534,169	230,846	2,218,339
28,632	9,536	424,820
-	150	71,117
-	-	1,095,717
-	-	157,569
-	<u>95,101</u>	<u>1,399,116</u>
562,801	747,802	16,629,172
-	-	2,849,260
-	-	7,629,134
767,158	726,710	2,760,439
-	-	934,346
-	-	1,144,709
-	-	116,345
-	<u>1,111,574</u>	<u>1,210,364</u>
<u>767,158</u>	<u>1,838,284</u>	<u>16,644,597</u>
(204,357)	(1,090,482)	(15,425)
146,000	1,103,579	1,249,579
<u>(40,000)</u>	<u>-</u>	<u>(1,117,667)</u>
<u>106,000</u>	<u>1,103,579</u>	<u>131,912</u>
(98,357)	13,097	116,487
<u>904,087</u>	<u>191,126</u>	<u>4,703,985</u>
<b><u>\$ 805,730</u></b>	<b><u>\$ 204,223</u></b>	<b><u>\$ 4,820,472</u></b>

# City of Fraser, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 116,487**

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

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

Capital outlay expenditures	630,167
Depreciation expense	(1,223,473)

Donated assets do not provide current financial resources and are therefore not recorded in governmental funds; in the statement of activities, these donations are recorded as capital contributions

805,878

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end

(73,979)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

814,998

Accrued interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds

(6,357)

Increase in accumulated employee compensated absences is recorded when earned in the statement of activities

(156,859)

Internal Service Funds are also included as governmental activities

(374,277)

**Change in Net Assets of Governmental Activities** **\$ 532,585**

# City of Fraser, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Business-type Activities			Governmental Activity
	Major Funds		Total Enterprise Funds	
	Water and Sewer	Senior Citizen Housing Complex		
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 216,058	\$ 148,777	\$ 364,835	\$ 273,336
Receivables - Customers	<u>1,054,612</u>	<u>-</u>	<u>1,054,612</u>	<u>-</u>
Total current assets	1,270,670	148,777	1,419,447	273,336
Noncurrent assets:				
Other assets	-	29,248	29,248	-
Capital assets - Net (Note 5)	<u>6,250,947</u>	<u>3,535,599</u>	<u>9,786,546</u>	<u>713,279</u>
Total noncurrent assets	<u>6,250,947</u>	<u>3,564,847</u>	<u>9,815,794</u>	<u>713,279</u>
Total assets	7,521,617	3,713,624	11,235,241	986,615
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	287,988	8,327	296,315	(1,260)
Accrued and other liabilities	18,591	56,860	75,451	13,958
Current portion of long-term debt (Note 7)	<u>-</u>	<u>165,000</u>	<u>165,000</u>	<u>-</u>
Total current liabilities	306,579	230,187	536,766	12,698
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	517	-	517	9,072
Long-term debt - Net of current portion (Note 7)	<u>-</u>	<u>2,231,934</u>	<u>2,231,934</u>	<u>-</u>
Total noncurrent liabilities	<u>517</u>	<u>2,231,934</u>	<u>2,232,451</u>	<u>9,072</u>
Total liabilities	<u>307,096</u>	<u>2,462,121</u>	<u>2,769,217</u>	<u>21,770</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	6,250,947	1,138,665	7,389,612	713,279
Unrestricted	<u>963,574</u>	<u>112,838</u>	<u>1,076,412</u>	<u>251,566</u>
Total net assets	<u><b>\$ 7,214,521</b></u>	<u><b>\$ 1,251,503</b></u>	<u><b>\$ 8,466,024</b></u>	<u><b>\$ 964,845</b></u>

# City of Fraser, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Business-type Activities			Governmental Activity
	Major Funds		Total	
	Water and Sewer	Senior Citizen Housing Complex		
				Internal Service Fund
<b>Operating Revenue</b>				
Charges for services	\$ 4,084,235	\$ -	\$ 4,084,235	\$ -
Interest and penalties	60,876	-	60,876	-
Rents	-	450,029	450,029	584,000
Other	28,550	6,895	35,445	6,298
Total operating revenue	4,173,661	456,924	4,630,585	590,298
<b>Operating Expenses</b>				
Salaries	623,483	30,428	653,911	87,564
Fringe benefits	219,983	-	219,983	69,055
Material and supplies	148,738	20,478	169,216	20,136
Gas and oil	-	-	-	138,094
Repairs and maintenance	69,681	73,930	143,611	252,839
Cost of water	746,111	-	746,111	-
Cost of sewage disposal	1,481,317	-	1,481,317	-
Utilities	22,294	35,452	57,746	-
Postage	17,462	-	17,462	-
Professional services	136,774	-	136,774	-
Insurance	-	-	-	36,788
Equipment rental	287,000	-	287,000	-
Curbside recycling	82,349	-	82,349	-
Depreciation	370,248	85,846	456,094	167,493
Miscellaneous	1,423	4,700	6,123	53,880
Total operating expenses	4,206,863	250,834	4,457,697	825,849
<b>Operating (Loss) Income</b>	(33,202)	206,090	172,888	(235,551)
<b>Nonoperating Revenue (Expenses)</b>				
Tap-in fees	42,628	-	42,628	-
Interest income	19,598	42,002	61,600	12,742
Interest expense	-	(131,932)	(131,932)	-
Loss on sale of fixed assets	-	-	-	(151,468)
Total nonoperating revenue (expenses)	62,226	(89,930)	(27,704)	(138,726)



# City of Fraser, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended June 30, 2007

	<u>Business-type Activities</u>			Governmental Activity
	<u>Major Funds</u>			
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	
<b>Income (Loss) - Before contributions</b>	\$ 29,024	\$ 116,160	\$ 145,184	\$ (374,277)
<b>Capital Contributions</b>	93,321	-	93,321	-
<b>Income (Loss) - Before operating transfers</b>	122,345	116,160	238,505	(374,277)
<b>Transfers Out</b>	(131,912)	-	(131,912)	-
<b>Change in Net Assets</b>	(9,567)	116,160	106,593	(374,277)
<b>Net Assets - Beginning of year</b>	<u>7,224,088</u>	<u>1,135,343</u>	<u>8,359,431</u>	<u>1,339,122</u>
<b>Net Assets - End of year</b>	<u><b>\$ 7,214,521</b></u>	<u><b>\$ 1,251,503</b></u>	<u><b>\$ 8,466,024</b></u>	<u><b>\$ 964,845</b></u>

# City of Fraser, Michigan

	Enterprise - Water and Sewer	Senior Citizen Housing Complex
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 4,030,571	\$ 450,909
Payments to suppliers	(3,453,637)	(123,822)
Payments to employees	(624,581)	(30,428)
Other receipts	28,550	6,895
Net cash (used in) provided by operating activities	(19,097)	303,554
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(441,102)	-
Tap-in fee collections	42,628	-
Transfers to other funds	(131,912)	-
Principal and interest paid on capital debt	-	(286,546)
Net cash used in capital and related financing activities	(530,386)	(286,546)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	19,598	42,002
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(529,885)	59,010
<b>Cash and Cash Equivalents</b> - Beginning of year	745,943	89,767
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 216,058</u>	<u>\$ 148,777</u>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (33,202)	\$ 206,090
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	370,248	85,846
Changes in assets and liabilities:		
Receivables	(114,540)	-
Other assets	-	2,525
Accounts payable	(72,346)	8,281
Accrued and other liabilities	(169,257)	812
Net cash (used in) provided by operating activities	<u>\$ (19,097)</u>	<u>\$ 303,554</u>
<b>Noncash Transactions</b> - Contribution of capital assets	<u>\$ 93,321</u>	<u>\$ -</u>

**Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2007**

Total Enterprise Funds	Internal Service Fund
\$ 4,481,480 (3,577,459) (655,009) <u>35,445</u>  284,457  (441,102) 42,628 (131,912) <u>(286,546)</u>  (816,932) <u>61,600</u>  (470,875) <u>835,710</u>  <b><u>\$ 364,835</u></b>	\$ 584,000 (586,535) (86,053) <u>6,298</u>  (82,290)  (7,400) - - <u>-</u>  (7,400) <u>12,742</u>  (76,948) <u>350,284</u>  <b><u>\$ 273,336</u></b>
\$ 172,888  456,094 (114,540) 2,525 (64,065) <u>(168,445)</u>  <b><u>\$ 284,457</u></b>	\$ (235,551)  167,493 - - (16,330) <u>2,098</u>  <b><u>\$ (82,290)</u></b>
<b><u>\$ 93,321</u></b>	<b><u>\$ -</u></b>

# City of Fraser, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2007

	Trust Funds - Pension and Other Retirement	
	Benefits	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 864,350	\$ 1,037,583
Investments (Note 3):		
U.S. government securities	937,193	-
Equity securities	14,586,338	-
Corporate bonds	3,092,663	-
Mortgage obligations	4,564,604	-
Mutual funds	1,904,212	-
Contributions receivable	202,151	-
Total assets	26,151,511	<u>\$ 1,037,583</u>
<b>Liabilities</b> - Accrued and other liabilities	7,218	<u>\$ 1,037,583</u>
<b>Net Assets</b> - Held in trust for pension and other postemployment benefits	<u>\$ 26,144,293</u>	

# City of Fraser, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Trust Funds - Pension and Other Retirement Benefits
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 916,064
Net increase in fair value of investments	2,786,025
Less investment expenses	<u>(131,981)</u>
Net investment income	3,570,108
Contributions:	
Employer	2,946,006
Employee	<u>230,566</u>
Total contributions	<u>3,176,572</u>
Total additions	6,746,680
<b>Deductions</b>	
Benefit payments	3,351,280
Administrative expenses	<u>76,468</u>
Total deductions	<u>3,427,748</u>
<b>Net Increase</b>	3,318,932
<b>Net Assets - Beginning of year</b>	<u>22,825,361</u>
<b>Net Assets - End of year</b>	<u><u>\$ 26,144,293</u></u>

# City of Fraser, Michigan

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## Component Units Statement of Net Assets June 30, 2007

	Economic Development Corporation	Downtown Development Authority	Total
<b>Assets - Cash and investments</b>	\$ 21,080	\$ 4,816	\$ 25,896
<b>Liabilities - Accrued and other liabilities</b>	<u>1,732</u>	<u>-</u>	<u>1,732</u>
<b>Net Assets - Unrestricted</b>	<u>\$ 19,348</u>	<u>\$ 4,816</u>	<u>\$ 24,164</u>

# City of Fraser, Michigan

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		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>
Economic Development Corporation - Public works and streets	\$ 1,733	\$ 3,361	\$ -
Downtown Development Authority - Public works	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,733</u>	<u>\$ 3,361</u>	<u>\$ -</u>

**General Revenues - Interest**

**Change in Net Assets**

**Net Assets - Beginning of year**

**Net Assets - End of year**

**Component Units  
Statement of Activities  
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation	Downtown Development Authority	Total
\$ 1,628	\$ -	\$ 1,628
-	-	-
1,628	-	1,628
809	207	1,016
2,437	207	2,644
16,911	4,609	21,520
<b>\$ 19,348</b>	<b>\$ 4,816</b>	<b>\$ 24,164</b>



### Note I - Summary of Significant Accounting Policies

The accounting policies of City of Fraser, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

**Blended Component Units** - The City of Fraser, Michigan Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as part of the Senior Housing Fund because its primary purpose is to finance and construct the City's senior citizen housing.

The City's employee retirement system has also been blended into the City's financial statements. The system is governed by an 11-member pension board that includes the plan trustee chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

**Discretely Presented Component Units** - The following component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The Authority does not have separately issued financial statements.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City Council. The Corporation does not have separately issued financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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. Revenue is 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 revenue 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.

### Note I - Summary of Significant Accounting Policies (Continued)

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

Property taxes 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. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Drug Forfeiture Fund (a Special Revenue Fund) accounts for the revenues and associated expenditures generated through drug seizure and related drug enforcement activities.
- The Special Assessment Fund (a Debt Service Fund) accounts for special assessment district revenues collected to make principal and interest payments on the 1996 Special Assessment Bonds.
- The Major Streets Fund (a Special Revenue Fund) accounts for the revenues and associated expenditures for repair and maintenance of major streets within the City.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.

### Note 1 - Summary of Significant Accounting Policies (Continued)

- The Senior Citizen Housing Complex Fund accounts for activity of the senior citizen housing center.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for vehicle and equipment rental provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Fund and Retiree Health Care Fund account for the activities of the retirement systems, which accumulate resources for pension benefit payments to qualified employees, and for medical benefits provided to employees during retirement, respectively.
- The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Major Streets Fund, Local Streets Fund, General Obligation Fund, Water and Sewer Fund, Internal Service Fund, and Special Assessment Fund (a Capital Projects Fund) is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

**Prepaid Costs and Other Assets** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - An outside developer of property within the City constructed a retention pond and remitted funds to the City to cover estimated future maintenance costs. This amount has been classified as a restricted asset. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20-30 years
Water and sewer distribution systems	25-30 years
Buildings and building improvements	20-50 years
County road improvements	5-20 years
Vehicles	5-20 years
Machinery and equipment	5-20 years
Furniture and fixtures	5-15 years

**Compensated Absences** - It is the City's policy to permit certain employees to accumulate earned but unused sick, vacation, and personal pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

**Fund Equity/Net Assets** - In the fund financial statements, governmental funds and business-type funds report reservations and restrictions of fund balance and net assets for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund equity and net assets represent tentative management plans that are subject to change.

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

	Funds				
	General	Drug Forfeiture	Special Assessment	Major Streets	Nonmajor
Designated for property tax appeals	\$ 110,500	\$ -	\$ -	\$ -	\$ 3,500
Undesignated	3,020,926	555,710	110,959	805,730	200,723
Total unreserved	<u>\$ 3,131,426</u>	<u>\$ 555,710</u>	<u>\$ 110,959</u>	<u>\$ 805,730</u>	<u>\$ 204,223</u>

At June 30, 2007, the City designated \$84,350 of Water and Sewer Fund net assets for the purchase of future water meters. The remaining \$879,224 of unrestricted net assets remains undesignated.

**Property Tax Revenue** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2006 ad valorem tax is levied and collectible on July 1, 2006 and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$589 million, on which ad valorem taxes levied consisted of 16.1128 mills for operating purposes, 0.60 mills for ambulance services, and 1.4254 mills for debt service. This resulted in revenue of \$9.5 million for operating, \$406,000 for ambulance services, and approximately \$786,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**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.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. Except as noted below, the budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules included in the required supplemental information are presented on the same basis of accounting used in preparing the adopted budgets. The budgets have been adopted on a fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The General Fund budget is adopted in a manner that does not comply with generally accepted accounting principles since retiree healthcare expenditures, totaling \$1,185,454 for the year ended June 30, 2007, are budgeted as transfers out rather than expenditures of the various functional departments of the City. In addition, the City budgets transfers between funds as resources and charges to appropriations instead of other financing sources/uses. A comparison of the actual results of operations to the General Fund, Major Streets Funds, and Drug Forfeiture Fund budgets as adopted by the City Council is available at the clerk's office for inspection.



### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**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:

	<u>Budget</u>	<u>Actual</u>
General Fund	\$ 14,295,124	\$ 14,687,204
Major Streets Fund	747,789	807,158

The General Fund variance was primarily the result of estimated retroactive wage adjustments and pension expenses that were not part of the amended budget. The Major Streets Fund variance was due to expenses related to the Masonic Boulevard reconstruction project that were incurred prior to the anticipated start of the project due to advanced funding received from the Jobs Now program.

**State Construction Code Fees** - The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. For the year ended June 30, 2007, building department revenue and expenditures totaled approximately \$137,000 and \$253,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$116,000 for this period. Since January 1, 2000, each year's expenditures have exceeded revenues within the City's building department.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) 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 City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; 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.

The Pension Trust Fund and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's investment policy adopted by the Council limits investments to those listed under the State's statutory authority as noted above. At June 30, 2007, the City's deposits and investments are in accordance with statutory authority.

The City's Pension Trust Fund and Retiree Health Care Fund investment policy, adopted by the City's pension board, limits investments to those listed under the State's statutory authority as noted above. The policy places further restrictions within the statutory limits that are discussed in greater detail below. At June 30, 2007, the deposits in the Pension Trust Fund and Retiree Health Care Fund are in accordance with statutory authority.

### Note 3 - Deposits and Investments (Continued)

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk - City-wide Bank Deposits and Investments

Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had approximately \$6 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial Credit Risk of Investments - Pension Trust and Retiree Health Care Funds

The City's Pension Trust and Retiree Health Care Funds do not have an investment policy for custodial credit risk.

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty or by its trust department or agent but not in the City's name:

Investment Type	Fair Value of		How Held
	City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	
United States government agency securities	\$ -	\$ 4,158,362	Counterparty
United States government bonds	-	937,193	Counterparty
Corporate bonds	-	3,092,668	Counterparty
Mutual funds	-	1,904,212	Counterparty
Equity securities	-	14,586,338	Counterparty
Commercial mortgage obligations	-	406,242	Counterparty
Total uninsured and unregistered	<u>\$ -</u>	<u>\$ 25,085,015</u>	

### Note 3 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's and the pension and retiree healthcare investment policies do not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value of		Weighted Average Maturity
	City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	
United States government agency securities	\$ -	\$ 4,158,362	20.6 years*
United States government bonds	-	937,193	10.8 years*
Corporate bonds	-	3,092,668	6.8 years*
Commercial mortgage obligations	-	406,242	27.0 years*

\* Governmental agency securities and all bonds are subject to monthly or quarterly principal and interest payments. The weighted average maturity is based on the expected date of the last principal and interest payment. These investments are callable and have interest rates ranging from 0 percent to 11.25 percent.

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The City's Pension Trust and Retiree Health Care Funds limit investments in nonconvertible bonds at the time of purchase to a rating of Baa or greater by Moody's and Standard and Poor's. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Interlocal Agreement Fund	\$ 583,990	A1	Moody's
United States government agency securities:			
Federal Home Loan Mortgage Corporation	1,452,478	A to AAA	S & P
Fannie Mae	2,694,391	AAA	S & P
Corporate bonds	3,092,668	BBB- to AAA	S & P
Commercial mortgage obligations	406,242	AAA	S & P

### Note 3 - Deposits and Investments (Continued)

#### Concentration of Credit Risk - City-wide Bank Deposits and Investments

The City places limits on deposits maintained at any given financial institution to no more than 50 percent of the City's total deposits.

#### Concentration of Credit Risk - Pension Trust and Retiree Health Care Funds

The City's Pension Trust and Retiree Health Care Funds limit investments in Baa rated bonds to no greater than 15 percent of the fixed income section of the portfolio. No more than 5 percent of the total asset portfolio may be invested in a single fixed income security and no more than 10 percent of the total portfolio may be invested in securities of a governmental agency that are not fully backed by the United States government. The funds' target investments in equity securities are between 40 percent and 60 percent of the portfolio and no more than 2 percent of the total portfolio shall be invested in a single equity security. At June 30, 2007, the City's pension fund maintained investments in the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association totaling approximately 5.7 percent and 10.6 percent, respectively, of the pension fund's total investments.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 347,575	\$ -
Other local payment received prior to meeting all eligibility requirements	<u>-</u>	<u>12,424</u>
Total	<u>\$ 347,575</u>	<u>\$ 12,424</u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land and land improvements	\$ 5,078,927	\$ -	\$ -	\$ 5,078,927
Capital assets being depreciated:				
Roads and sidewalks	70,757,676	1,261,583	-	72,019,259
County road improvements	472,167	14,480	-	486,647
Buildings and improvements	6,238,131	-	-	6,238,131
Vehicles	3,773,088	777,672	(219,357)	4,331,403
Machinery and equipment	1,189,305	81,868	-	1,271,173
Furniture and fixtures	274,291	-	-	274,291
Subtotal	82,704,658	2,135,603	(219,357)	84,620,904
Accumulated depreciation:				
Roads and sidewalks	63,952,515	725,592	-	64,678,107
Buildings and improvements	1,180,182	142,902	-	1,323,084
Vehicles	2,519,775	209,525	(41,491)	2,687,809
Machinery and equipment	458,708	274,931	-	733,639
Furniture and fixtures	131,906	20,459	-	152,365
Subtotal	68,243,086	1,373,409	(41,491)	69,575,004
Net capital assets being depreciated	14,461,572	762,194	(177,866)	15,045,900
Net capital assets	<u>\$ 19,540,499</u>	<u>\$ 762,194</u>	<u>\$ (177,866)</u>	<u>\$ 20,124,827</u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Business-type Activities</b>				
Capital assets not being depreciated - Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Capital assets being depreciated:				
Water and sewer distribution systems	13,002,454	534,423	-	13,536,877
Buildings and building improvements	<u>3,850,292</u>	<u>-</u>	<u>-</u>	<u>3,850,292</u>
Subtotal	16,852,746	534,423	-	17,387,169
Accumulated depreciation:				
Water and sewer distribution systems	6,927,725	370,248	-	7,297,973
Buildings and building improvements	<u>1,053,847</u>	<u>85,846</u>	<u>-</u>	<u>1,139,693</u>
Subtotal	<u>7,981,572</u>	<u>456,094</u>	<u>-</u>	<u>8,437,666</u>
Net capital assets being depreciated	<u>8,871,174</u>	<u>78,329</u>	<u>-</u>	<u>8,949,503</u>
Net capital assets	<u>\$ 9,708,217</u>	<u>\$ 78,329</u>	<u>\$ -</u>	<u>\$ 9,786,546</u>

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 237,529
Public safety	91,054
Public works	615,240
Recreation and culture	262,093
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>167,493</u>
Total governmental activities	<u>\$ 1,373,409</u>
<b>Business-type activities:</b>	
Water and sewer	\$ 370,248
Senior Housing Center	<u>85,846</u>
Total business-type activities	<u>\$ 456,094</u>

### Note 6 - Interfund Transfers

#### Interfund Transfers

The composition of interfund transfers out is as follows:

<u>Fund Transferred From</u>	<u>Fund Transferred to</u>	<u>Amount</u>
<b>Governmental Activities</b>		
General Fund	Nonmajor governmental funds	\$ 931,667
General Fund	Major Streets Fund	146,000
Major Streets Fund	Nonmajor governmental funds	<u>40,000</u>
	Total governmental transfers out	1,117,667
<b>Business-type Activities</b>		
Water and Sewer Fund	Nonmajor governmental funds	<u>131,912</u>
	Total transfers out reported in governmental and proprietary funds	<u>\$ 1,249,579</u>

During 2007, the City's General Fund made significant transfers to the Debt Service Fund to service current year debt payments. Additionally, the City's General Fund made significant transfers to the major and local street Special Revenue Funds for the improvement of major and local streets.



### Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
1998 Unlimited Tax General Obligation							
City Hall Bonds							
Amount of issue - \$5,750,000	4.20% -	\$200,000 -					
Maturing through 2020	4.25%	\$550,000	\$ 5,025,000	\$ -	\$ (200,000)	\$ 4,825,000	\$ 200,000
2002 Limited Tax General Obligation							
Capital Improvement Bonds							
Amount of issue - \$1,900,000	4.00% -	\$50,000 -					
Maturing through 2023	5.00%	\$175,000	1,800,000	-	(50,000)	1,750,000	50,000
2003 General Obligation Limited Tax							
Refunding Bonds							
Amount of issue - \$1,560,000	2.50% -	\$205,000 -					
Maturing through 2011	3.13%	\$245,000	1,320,000	-	(220,000)	1,100,000	215,000
2003 General Obligation Capital							
Improvement Bonds							
Amount of issue - \$510,000	3.40% -	\$50,000 -					
Maturing through 2013	4.50%	\$70,000	405,000	-	(35,000)	370,000	50,000
Installment purchase agreements -							
1993 Installment Purchase Agreement							
Amount of issue - \$1,865,000	5.40%						
Maturing through 2008		\$175,000	340,000	-	(165,000)	175,000	175,000

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities (Continued)</b>							
Lease purchase agreements -							
Aerial Platform Fire Truck							
Amount of issue - \$699,980	4.43%	\$62,998	\$ -	\$ 699,980	\$ (69,998)	\$ 629,982	\$ 62,998
Maturing through 2017							
Special assessment bonds -							
1996 Special Assessment Bonds							
Amount of issue - \$1,205,000	5.20% -	\$75,000 -					
Maturing through 2012	5.45%	\$100,000	480,000	-	(75,000)	405,000	75,000
Total bond obligations			9,370,000	699,980	(814,998)	9,254,982	827,998
Other long-term obligations - Compensated absences							
			1,015,686	159,106	-	1,174,792	610,988
Total governmental activities			10,385,686	859,086	(814,998)	10,429,774	1,438,986
<b>Business-type Activities</b>							
General obligation bonds:							
1999 Building Authority Bonds							
Amount of issue - \$3,235,000	4.15% -	\$155,000 -					
Maturing through 2019	4.80%	\$270,000	2,695,000	-	(165,000)	2,530,000	165,000
Unamortized discount and deferred charges on defeasance							
	-	-	(144,555)	11,489	-	(133,066)	-
Total bond obligations			2,550,445	11,489	(165,000)	2,396,934	165,000
Other long-term obligations - Compensated absences							
			8,802	-	(971)	7,831	7,314
Total business-type activities			2,559,247	11,489	(165,971)	2,404,765	172,314
Total			\$ 12,944,933	\$ 870,575	\$ (980,969)	\$ 12,834,539	\$ 1,611,300

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 827,998	\$ 378,021	\$ 1,206,019	\$ 165,000	\$ 112,256	\$ 277,256
2009	692,998	343,805	1,036,803	165,000	105,326	270,326
2010	732,998	317,008	1,050,006	160,000	98,380	258,380
2011	802,998	287,053	1,090,051	155,000	91,530	246,530
2012	848,000	254,627	1,102,627	205,000	83,558	288,558
2013-2017	2,899,990	878,066	3,778,056	1,140,000	269,685	1,409,685
2018-2022	2,275,000	236,100	2,511,100	540,000	25,920	565,920
2023	175,000	4,375	179,375	-	-	-
Total	\$ 9,254,982	\$ 2,699,055	\$ 11,954,037	\$ 2,530,000	\$ 786,655	\$ 3,316,655

### **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League risk pool for workers' compensation insurance, and has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 9 - Contingencies**

During the year ended June 30, 2002, the City received an administrative consent order from the State of Michigan Department of Environmental Quality for its alleged violation of the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451. As a result of the consent order, the Department of Environmental Quality fined the City \$210,000. The City was required to pay \$20,000 annually from April 2002 through 2004. As of June 30, 2007, all of these payments were made. The City was also required to pay the remaining \$150,000 by conducting three environmental projects to improve the existing storm and sanitary sewer system at various dates through December 31, 2006. The City completed one of these environmental projects for a total cost of approximately \$220,000 and the remaining projects are pending.

During the year ended June 30, 2002, the City issued \$1,900,000 of general obligation, limited tax bonds, which was entirely spent to improve the City's sewer system in the years ended June 30, 2003, 2004, and 2005. As of June 30, 2007, the City has completed its first phase of sewer repairs and continues to implement new projects that are aimed at reducing inflow infiltration. The City estimates it may incur total costs of approximately \$6 million to \$17 million to undertake the construction projects necessary to be in compliance with the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451.

### Note 10 - Defined Benefit Pension Plan

**Plan Description** - The City maintains a defined benefit retirement plan consisting of the following employee groups: public safety, Department of Public Works, management employees, office and clerical workers, dispatchers, and supervisors. Each employee group is covered under a consolidated plan. The consolidated plan is a single-employer defined benefit pension plan administered by the City of Fraser's pension board. The consolidated plan does not issue a separate financial report.

**Public Safety** - The plan covers all full-time public safety employees who are members of POAM or POLC. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, public safety membership consisted of 36 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 46 current active employees.

**Department of Public Works** - The plan covers all full-time Department of Public Works employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, public works membership consisted of six retirees currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 16 current active employees.

**Management Employees** - The plan covers all full-time management employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, management membership consisted of 13 retirees and beneficiaries currently receiving benefits, two terminated employees entitled to benefits but not yet receiving them, and seven current active employees.

**Office and Clerical Workers** - The plan covers all full-time office and clerical employees who are members of the collective bargaining unit. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, office and clerical membership consisted of seven retirees and beneficiaries currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 14 current active employees.

### Note 10 - Defined Benefit Pension Plan (Continued)

**Dispatchers** - The plan covers all full-time dispatcher employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, dispatcher membership consisted of two terminated employees entitled to benefits but not yet receiving them, and five current active employees.

**Supervisors** - The plan covers full-time supervisory employees of the City who are not considered management or are not covered by any other collectively bargained plan. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, supervisors' membership consisted of eight retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and seven current active employees.

#### Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The funding policy of the plan provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

The following employee contributions are required under collectively bargained agreements:

Public safety	3.36 percent
Department of Public Works	3.72 percent
Office and clerical	5.00 percent
Dispatchers	4.71 percent

Management and supervisory employees are not covered under a collective bargaining agreement. They are required to make a 2 percent and 3 percent contribution, respectively.

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Annual Pension Costs

For the year ended June 30, 2007, the City's annual pension cost and net pension obligation are as follows:

	Public Safety	Public Works	Management	Office and Clerical	Dispatchers	Supervisors	Total
Annual required contribution	\$ 1,118,438	\$ 161,388	\$ 166,634	\$ 94,783	\$ 39,210	\$ 175,504	\$ 1,755,957
Interest on net pension (asset) obligation	(22,508)	2,320	5,460	(3,107)	(1,132)	(3,755)	(22,722)
Adjustment to annual required contribution	<u>26,008</u>	<u>(2,755)</u>	<u>4,306</u>	<u>3,689</u>	<u>1,344</u>	<u>4,459</u>	<u>37,051</u>
Annual pension cost	1,121,938	160,953	176,400	95,365	39,422	176,208	1,770,286
Contributions made	<u>(1,134,622)</u>	<u>(149,999)</u>	<u>(186,714)</u>	<u>(94,273)</u>	<u>(39,210)</u>	<u>(155,734)</u>	<u>(1,760,552)</u>
Change in net pension (asset) obligation	(12,684)	10,954	(10,314)	1,092	212	20,474	9,734
Net pension (asset) obligation - Beginning of year	<u>(277,932)</u>	<u>29,006</u>	<u>(36,253)</u>	<u>(38,843)</u>	<u>(14,154)</u>	<u>(46,948)</u>	<u>(385,124)</u>
Net pension (asset) obligation - End of year	<u>\$ (290,616)</u>	<u>\$ 39,960</u>	<u>\$ (46,567)</u>	<u>\$ (37,751)</u>	<u>\$ (13,942)</u>	<u>\$ (26,474)</u>	<u>\$ (375,390)</u>

The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return and (b) projected salary increases of 5 percent per year. Both (a) and (b) include an inflation component of 5 percent. The actuarial valuation of assets was determined using the fair market value of plan assets as of the date of the actuarial valuation. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2007 was 23 years.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2007

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information of Annual Pension Cost

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Public safety:			
2005	\$ 796,316	97.8	\$ (320,483)
2006	1,006,857	95.8	(277,932)
2007	1,121,938	101.1	(290,616)
Department of Public Works:			
2005	104,655	100.2	24,937
2006	114,935	96.5	29,006
2007	160,953	93.2	39,960
Management employees:			
2005	161,951	96.0	(46,330)
2006	174,710	94.2	(36,253)
2007	176,400	105.8	(46,567)
Office and clerical workers:			
2005	79,935	99.4	(42,468)
2006	84,218	95.7	(38,843)
2007	95,365	98.9	(37,751)
Dispatchers:			
2005	28,534	100.7	(15,645)
2006	31,833	95.3	(14,154)
2007	39,422	99.5	(13,942)
Supervisors:			
2005	95,687	101.1	(51,289)
2006	103,243	95.8	(46,948)
2007	176,208	88.4	(26,474)

### **Note 11 - Postemployment Benefits**

The City provides healthcare and dental benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 73 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare and dental benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,133,000.



## **Required Supplemental Information**

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# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,897,786	\$ 2,897,786	\$ 2,897,786	\$ -
<b>Resources (Inflows)</b>				
Property taxes:				
Property taxes	10,547,848	10,420,474	10,422,582	2,108
Payments in lieu of taxes	72,011	71,194	71,195	1
Property tax administration fees	166,000	185,800	186,464	664
Interest, penalties, and other	38,796	55,968	56,702	734
Total property taxes	10,824,655	10,733,436	10,736,943	3,507
Federal sources	125,844	110,995	113,382	2,387
State sources	1,483,361	1,481,361	1,453,324	(28,037)
District Court and Violations Bureau	1,083,342	1,081,142	1,095,717	14,575
Licenses, permits, and registrations	206,959	172,565	157,569	(14,996)
Interest income	131,218	311,218	323,855	12,637
Other:				
Recreation department	90,000	80,000	71,827	(8,173)
Library revenue	11,800	12,000	12,538	538
Other	874,241	954,436	968,113	13,677
Total resources (inflows)	14,831,420	14,937,153	14,933,268	(3,885)
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	113,020	113,020	118,948	(5,928)
City administration	319,726	338,003	347,672	(9,669)
City clerk	140,472	133,278	138,499	(5,221)
District Court	724,022	783,630	778,140	5,490
Finance	410,533	442,473	459,591	(17,118)
Assessor	150,101	160,945	166,864	(5,919)
Legal	123,638	143,038	157,568	(14,530)
Buildings and grounds	412,442	404,336	465,296	(60,960)
Total general government	2,393,954	2,518,723	2,632,578	(113,855)

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows)</b> (Continued)				
Public works	\$ 1,102,313	\$ 1,041,552	\$ 1,072,698	\$ (31,146)
Public safety	6,687,944	6,601,878	6,810,222	(208,344)
Building inspection	263,649	243,806	256,179	(12,373)
City parks and recreation	739,742	729,730	808,898	(79,168)
Library	440,069	444,781	460,803	(16,022)
Planning Committee	48,700	48,700	53,195	(4,495)
Historical Commission	3,000	3,000	3,000	-
Insurance	288,400	225,000	222,811	2,189
Other	509,559	213,059	148,721	64,338
Transfers to other funds	2,224,895	2,224,895	2,218,099	6,796
Total charges to appropriations (outflows)	14,702,225	14,295,124	14,687,204	(392,080)
<b>Fund Balance - End of year</b>	<b>\$ 3,026,981</b>	<b>\$ 3,539,815</b>	<b>\$ 3,143,850</b>	<b>\$ (395,965)</b>

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Drug Forfeiture Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 601,745	\$ 601,745	\$ 601,745	\$ -
<b>Resources (Inflows)</b>				
Interest income	10,000	10,000	33,256	23,256
Other	<u>355,000</u>	<u>355,000</u>	<u>251,537</u>	<u>(103,463)</u>
Total resources (inflows)	365,000	365,000	284,793	(80,207)
<b>Charges to Appropriations (Outflows)</b>				
Other functions:				
Materials and supplies	138,000	138,000	147,037	(9,037)
Repairs and maintenance	7,000	7,000	11,040	(4,040)
Professional services	70,000	70,000	56,406	13,594
Capital outlay	<u>150,000</u>	<u>150,000</u>	<u>116,345</u>	<u>33,655</u>
Total charges to appropriations (outflows)	<u>365,000</u>	<u>365,000</u>	<u>330,828</u>	<u>34,172</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 601,745</b></u>	<u><b>\$ 601,745</b></u>	<u><b>\$ 555,710</b></u>	<u><b>\$ (46,035)</b></u>

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 904,087	\$ 904,087	\$ 904,087	\$ -
<b>Resources (Inflows)</b>				
State sources	571,007	560,000	534,169	(25,831)
Interest income	4,568	4,568	28,632	24,064
Operating transfers	<u>146,291</u>	<u>146,291</u>	<u>146,000</u>	<u>(291)</u>
Total resources (inflows)	721,866	710,859	708,801	(2,058)
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Salaries and fringe benefits	230,606	187,528	189,368	(1,840)
Materials and supplies	50,000	35,000	25,825	9,175
Repairs and maintenance	35,744	35,744	37,652	(1,908)
Equipment rental	21,000	21,000	21,000	-
Other	43,751	137,751	147,012	(9,261)
Capital outlay	300,765	290,766	346,301	(55,535)
Operating transfers	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>721,866</u>	<u>747,789</u>	<u>807,158</u>	<u>(59,369)</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 904,087</b></u>	<u><b>\$ 867,157</b></u>	<u><b>\$ 805,730</b></u>	<u><b>\$ (61,427)</b></u>

# City of Fraser, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (a) June 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (Percent)
<b>Public Safety</b>						
June 30:						
2001	\$ 13,855,770	\$ 16,585,807	\$ 2,730,037	84	\$ 3,275,235	83
2002	13,638,011	17,616,778	3,978,767	77	3,007,735	132
2003	13,014,477	19,182,822	6,168,345	68	3,416,100	181
2004	12,747,123	21,145,951	8,398,828	60	3,500,286	240
2005	12,455,054	22,417,422	9,962,368	56	3,660,309	272
2006	13,482,313	23,797,270	10,314,957	57	3,611,462	286
<b>Management Employees</b>						
June 30:						
2001	2,347,477	2,994,234	646,757	78	430,349	150
2002	2,333,696	3,158,428	824,732	74	447,772	184
2003	2,283,058	3,530,586	1,247,528	65	389,903	320
2004	2,103,563	3,790,858	1,687,295	55	467,912	361
2005	2,027,983	4,052,211	2,024,228	50	460,382	440
2006	2,133,994	4,151,333	2,017,339	51	480,444	420
<b>Department of Public Works</b>						
June 30:						
2001	2,239,812	2,209,450	(30,362)	101	876,102	-
2002	2,330,995	2,294,856	(36,139)	102	878,573	-
2003	2,397,995	2,677,546	279,551	90	899,817	31
2004	2,490,777	3,006,530	515,753	83	805,720	64
2005	2,536,999	3,469,042	932,043	73	764,067	122
2006	2,804,035	3,419,046	615,011	82	796,840	77
<b>Office and Clerical Workers</b>						
June 30:						
2001	1,343,086	1,624,461	281,375	83	556,642	51
2002	1,350,687	1,540,521	189,834	88	563,156	34
2003	1,347,029	1,803,862	456,833	75	626,530	73
2004	1,378,954	2,048,400	669,446	67	653,358	102
2005	1,413,472	1,922,183	508,711	74	531,787	96
2006	1,567,939	2,018,288	450,349	78	529,193	85
<b>Dispatchers</b>						
June 30:						
2001	141,491	251,358	109,867	56	194,066	57
2002	178,229	283,220	104,991	63	226,066	46
2003	219,059	365,078	146,019	60	237,218	62
2004	269,651	441,556	171,905	61	245,358	70
2005	312,240	487,720	175,480	64	221,085	79
2006	387,630	481,068	93,438	81	200,166	47
<b>Supervisors</b>						
June 30:						
2001	1,723,435	1,970,323	246,888	87	594,126	42
2002	1,807,914	2,495,315	687,401	72	598,408	115
2003	1,838,344	2,796,438	958,094	66	599,548	160
2004	1,908,654	3,000,245	1,091,591	64	554,253	197
2005	1,919,381	3,279,431	1,360,050	59	347,085	392
2006	2,028,932	3,558,611	1,529,679	57	402,880	380

(a) Required by Governmental Accounting Standards Board Statement No. 25

# City of Fraser, Michigan

## Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2007

Year Ended	Annual Required Contribution	Percentage Contributed
<b><u>Public Safety</u></b>		
Year ended June 30:		
2002	\$ 598,171	101
2003	570,774	100
2004	694,625	99
2005	792,090	98
2006	1,003,146	96
2007	1,118,438	101
<b><u>Management Employees</u></b>		
Year ended June 30:		
2002	101,923	105
2003	88,703	101
2004	108,404	99
2005	161,292	87
2006	164,989	100
2007	166,634	112
<b><u>Department of Public Works Employees</u></b>		
Year ended June 30:		
2002	108,552	103
2003	106,201	100
2004	101,605	101
2005	104,969	94
2006	115,276	96
2007	161,388	93
<b><u>Office and Clerical Workers</u></b>		
Year ended June 30:		
2002	70,040	103
2003	75,184	99
2004	71,804	95
2005	79,398	96
2006	83,637	96
2007	94,783	99
<b><u>Dispatchers</u></b>		
Year ended June 30:		
2002	26,067	104
2003	29,652	99
2004	31,019	99
2005	28,340	99
2006	31,619	96
2007	39,210	100
<b><u>Supervisors</u></b>		
Year ended June 30:		
2002	76,919	106
2003	82,500	102
2004	99,033	101
2005	95,058	95
2006	102,541	96
2007	175,504	89

# City of Fraser, Michigan

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## Required Supplemental Information Pension System Schedule of Employer Contributions (Continued) June 30, 2007

The retirement system supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information and actuarial assumptions used for all plans as of the latest actuarial valuation reports dated June 30, 2006 are as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of pay, closed, 24-year period
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4% to 5%
Payroll growth	5%
Inflation	None



## **Other Supplemental Information**

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# City of Fraser, Michigan

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	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds	
	Local Streets	General Obligation	Motor Vehicle Highway
<b>Assets</b>			
Cash and investments	\$ 97,562	\$ 103,361	\$ -
Due from other governmental units	37,906	-	-
Total assets	<u><b>\$ 135,468</b></u>	<u><b>\$ 103,361</b></u>	<u><b>\$ -</b></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 30,859	\$ -	\$ -
Accrued and other liabilities	4,224	-	-
Total liabilities	35,083	-	-
<b>Fund Balances - Reserved</b>	<u>100,385</u>	<u>103,361</u>	<u>-</u>
Total liabilities and fund balances	<u><b>\$ 135,468</b></u>	<u><b>\$ 103,361</b></u>	<u><b>\$ -</b></u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

<u>Nonmajor Capital Projects Fund</u>	<u>Special Assessments</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 477	\$ 201,400	
<u>-</u>	<u>37,906</u>	
<b><u>\$ 477</u></b>	<b><u>\$ 239,306</u></b>	

\$ -	\$ 30,859
<u>-</u>	<u>4,224</u>
-	35,083
<u>477</u>	<u>204,223</u>
<b><u>\$ 477</u></b>	<b><u>\$ 239,306</u></b>

# City of Fraser, Michigan

	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds	
	Local Streets	General Obligation	Motor Vehicle Highway
<b>Revenue</b>			
Property taxes	\$ -	\$ 412,169	\$ -
State sources	230,846	-	-
Special assessments	-	-	-
Interest on investments	3,298	6,218	-
Other revenue	12,220	-	82,881
Total revenue	246,364	418,387	82,881
<b>Expenditures</b>			
Current - Public works	726,710	-	-
Debt service	-	845,333	266,241
Total expenditures	726,710	845,333	266,241
<b>Excess of Revenue Over (Under) Expenditures</b>	(480,346)	(426,946)	(183,360)
<b>Other Financing Sources</b> - Transfers in	485,000	435,219	183,360
<b>Change in Fund Balances</b>	4,654	8,273	-
<b>Fund Balances</b> - Beginning of year	95,731	95,088	-
<b>Fund Balances</b> - End of year	<u>\$ 100,385</u>	<u>\$ 103,361</u>	<u>\$ -</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

<u>Nonmajor Capital Projects Fund</u>	Total Nonmajor Governmental Funds
<u>Special Assessments</u>	<u>Funds</u>
\$ -	\$ 412,169
-	230,846
150	150
20	9,536
-	95,101
170	747,802
-	726,710
-	1,111,574
-	1,838,284
170	(1,090,482)
-	1,103,579
170	13,097
307	191,126
<b>\$ 477</b>	<b>\$ 204,223</b>

# City of Fraser, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Local Streets Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 95,731	\$ 95,731	\$ 95,731	\$ -
<b>Resources (Inflows)</b>				
State sources	247,077	230,000	230,846	846
Other	7,500	9,800	12,220	2,420
Interest income	488	500	3,298	2,798
Operating transfers	485,786	485,786	485,000	(786)
Total resources (inflows)	740,851	726,086	731,364	5,278
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Salaries and fringe benefits	295,950	255,548	289,008	(33,460)
Materials and supplies	47,250	47,250	64,345	(17,095)
Repairs and maintenance	57,579	45,579	35,006	10,573
Equipment rental	27,000	27,000	27,000	-
Other	1,700	1,700	1,700	-
Capital outlay	311,372	326,371	309,651	16,720
Total charges to appropriations (outflows)	740,851	703,448	726,710	(23,262)
<b>Fund Balance - End of year</b>	<b>\$ 95,731</b>	<b>\$ 118,369</b>	<b>\$ 100,385</b>	<b>\$ (17,984)</b>

# City of Fraser, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2007

	Pension Trust	Retiree Health Care Trust	Pension and Other Employee Benefit Trust Fund Totals
<b>Assets</b>			
Cash and investments	\$ 25,540,100	\$ 409,260	\$ 25,949,360
Contributions receivable	202,151	-	202,151
Total assets	25,742,251	409,260	26,151,511
<b>Liabilities</b> - Accrued and other liabilities			
	7,218	-	7,218
<b>Net Assets</b> - Held in trust for pension and other employee benefits			
	<b>\$ 25,735,033</b>	<b>\$ 409,260</b>	<b>\$ 26,144,293</b>

# City of Fraser, Michigan

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	Public Safety	Management Employees	Department of Public Works
<b>Additions</b>			
Investment income (loss):			
Interest and dividends	\$ 541,063	\$ 82,468	\$ 114,139
Net increase in fair value of investments	1,676,950	256,343	352,680
Less investment expenses	<u>(79,604)</u>	<u>(12,135)</u>	<u>(16,758)</u>
Net investment income	2,138,409	326,676	450,061
Contributions:			
City	1,134,622	186,714	149,999
Employee	<u>120,325</u>	<u>7,762</u>	<u>32,490</u>
Total contributions	<u>1,254,947</u>	<u>194,476</u>	<u>182,489</u>
Total additions	3,393,356	521,152	632,550
<b>Deductions</b>			
Benefit payments	1,468,993	311,369	138,492
Administrative expenses	<u>38,170</u>	<u>18,922</u>	<u>7,965</u>
Total deductions	<u>1,507,163</u>	<u>330,291</u>	<u>146,457</u>
<b>Net Increase in Net Assets</b>	1,886,193	190,861	486,093
<b>Net Assets Held in Trust for Pension and Other Benefits</b>			
Beginning of year	<u>13,555,305</u>	<u>2,111,011</u>	<u>2,816,349</u>
End of year	<u><b>\$ 15,441,498</b></u>	<u><b>\$ 2,301,872</b></u>	<u><b>\$ 3,302,442</b></u>



**Other Supplemental Information**  
**Combining Statement of Changes in Net Assets by Retiree Group**  
**Trust Funds**  
**Year Ended June 30, 2007**

Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund	Retiree Health Care Trust	Trust Fund Totals
\$ 63,724	\$ 16,550	\$ 81,448	\$ 899,392	\$ 16,672	\$ 916,064
196,975	50,894	252,183	2,786,025	-	2,786,025
(9,360)	(2,146)	(11,978)	(131,981)	-	(131,981)
251,339	65,298	321,653	3,553,436	16,672	3,570,108
94,273	39,210	155,734	1,760,552	1,185,454	2,946,006
27,303	10,817	31,869	230,566	-	230,566
121,576	50,027	187,603	1,991,118	1,185,454	3,176,572
372,915	115,325	509,256	5,544,554	1,202,126	6,746,680
91,276	-	208,266	2,218,396	1,132,884	3,351,280
5,035	1,318	5,058	76,468	-	76,468
96,311	1,318	213,324	2,294,864	1,132,884	3,427,748
276,604	114,007	295,932	3,249,690	69,242	3,318,932
1,574,123	389,165	2,039,390	22,485,343	340,018	22,825,361
<b><u>\$ 1,850,727</u></b>	<b><u>\$ 503,172</u></b>	<b><u>\$ 2,335,322</u></b>	<b><u>\$ 25,735,033</u></b>	<b><u>\$ 409,260</u></b>	<b><u>\$ 26,144,293</u></b>

# City of Fraser, Michigan

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	<u>Public Safety</u>	<u>Management Employees</u>	<u>Department of Public Works</u>
<b>Assets</b>			
Cash and investments	\$ 15,296,999	\$ 2,279,926	\$ 3,298,781
Contributions receivable	<u>144,499</u>	<u>21,946</u>	<u>3,661</u>
Total assets	15,441,498	2,301,872	3,302,442
<b>Liabilities - Due to retiree</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Assets - Held in trust for pension     benefits</b>	<u><u>\$ 15,441,498</u></u>	<u><u>\$ 2,301,872</u></u>	<u><u>\$ 3,302,442</u></u>

**Other Supplemental Information**  
**Combining Statement of Net Assets by Retiree Group**  
**Pension Trust Fund**  
**Year Ended June 30, 2007**

Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund
\$ 1,841,027	\$ 497,892	\$ 2,325,475	\$ 25,540,100
<u>9,700</u>	<u>5,280</u>	<u>17,065</u>	<u>202,151</u>
1,850,727	503,172	2,342,540	25,742,251
<u>-</u>	<u>-</u>	<u>7,218</u>	<u>7,218</u>
<b><u>\$ 1,850,727</u></b>	<b><u>\$ 503,172</u></b>	<b><u>\$ 2,335,322</u></b>	<b><u>\$ 25,735,033</u></b>



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October 29, 2007

To the Honorable Mayor and  
Members of City Council  
City of Fraser, Michigan  
33000 Garfield  
Fraser, Michigan 48026

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Fraser, Michigan (the "City") for the year ended June 30, 2007. As a part of that audit and to assist with the City's continuous improvement efforts, we have the following comments and recommendations, which are not considered significant deficiencies or material weaknesses, for your review and consideration.

### **Overview of the City's Financial Condition**

The City's efforts to closely monitor expenditures resulted in an increase in General Fund balance of approximately \$246,000 during the year ended June 30, 2007. As a result, fund balance in the General Fund totaled approximately \$3.1 million at June 30, 2007, of which all but \$12,000 is unreserved and undesignated. This represents approximately 22 percent of the City's budgeted General Fund expenditures for the fiscal year ending June 30, 2008.

### **Water and Sewer Fund**

The Water and Sewer Fund's operating results for the year ended June 30, 2007 decreased net assets by \$10,000 from the prior year. More importantly, the Fund experienced a decrease of \$540,000 in cash during the year, leaving \$216,000 available at June 30, 2007. This primarily resulted from a decrease in operating revenue due to a reduction in water and sewer units billed to customers, an overall increase in sewage disposal costs of \$171,000, and the purchase of \$441,000 of capital assets. In order for this fund to finance the significant capital improvements required to maintain and upgrade its infrastructure, it must increase its capital (cash) position by improving operating results, thereby increasing the cash flow generated from operations. Otherwise, any significant improvements to infrastructure may require alternative financing sources. We strongly encourage the City to continue closely monitoring water and sewer operating costs, short- and long-term infrastructure needs, and user rates to appropriately address these concerns.

### **Retiree Health Care**

As you are aware, the City provides postemployment healthcare benefits to substantially all City employees. The City established a Retiree Health Care Fund under Public Act 149 to fund these postemployment benefits. The City has accumulated approximately \$409,000 in the Retiree Health Care Fund at June 30, 2007. For the year ended June 30, 2007, the annual cost of these benefits was approximately \$1,133,000, which represents an increase of approximately 8 percent from the 2006 amount. The City budgeted \$1,265,000 for retiree healthcare costs in fiscal 2008 and the annual cost is expected to increase annually beyond fiscal year 2008.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension system, the new pronouncement will require the City to obtain an actuarial valuation of the obligation to provide retiree healthcare benefits, which City management is currently in the process of working with an actuary to gather the required information in accordance with GASB 45. In addition, the City's funding status or the progress it has made in accumulating assets to pay for this liability will be disclosed in the financial statements. The changes required under GASB Statement No. 45 will be effective for the City's year ending June 30, 2009. We would be happy to assist the City in further understanding the provisions of GASB Statement No. 45.

### **Revenue Sharing**

As you are aware, reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget as the State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January and May 2007 revenue estimating conferences. According to economists, Michigan is still approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. It is also not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a “reserve fund” which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the “revenue-sharing formula” and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this act for appropriations to continue into 2008 and beyond. This portion represents approximately \$377,000 of the City’s \$1,441,000 distribution for the year ended June 30, 2007.
- **Changes to Michigan’s Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State’s budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and, as the law is already lengthy and complex, the true financial impact on the State’s budget is hard to predict. Rumors on further changes to Michigan’s tax structure continue to circulate around Lansing as the legislature continues its work on the State’s fiscal year 2007/2008 budget and solving the estimated \$1.9 billion deficit that exists.

As introduced, the governor’s budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate is in process and all indications point to a very busy September for the legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State’s fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State. We will continue to provide updates to you as events unfold.

## **New Auditing Standards**

Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning next year. Eight new auditing standards have been issued (Statements on Auditing Standards 104 through 111) that require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for all entities into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically to management and the commission about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's finance department during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the commission will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

### **Report on Internal Controls**

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful in your oversight of the City's financial management. Specifically, they require us to report internal control issues that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiency constitutes a material weakness.



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

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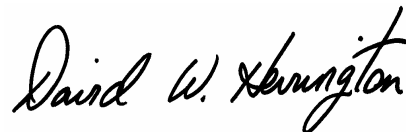
October 29, 2007

**Financial Statement Report Adjustments** - During the audit we generally provide assistance in identifying and calculating certain year-end adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB Statement 34. We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as ratings of investments). We are pleased to assist in this process - our auditors have expertise in these sorts of adjustments and reporting issues and can generally assist in a very cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

We would like to thank the Council for providing us the opportunity to serve as the auditors for the City. In addition, we sincerely appreciate the cooperation extended to us by Mr. Bremer, Mrs. Robichaud, Mrs. Pompo, and the rest of the staff during this audit. As always, we would be pleased to discuss these comments, information presented in the financial statements, or any other matters with you at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive style with a large, prominent initial "D".

David W. Herrington