

# **City of Fraser, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2009**

# 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 the City of Fraser, Michigan (the "City") as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fraser, Michigan'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 the City of Fraser, Michigan as of June 30, 2009 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.

As described in Note 11, the City has implemented a new financial reporting standard, as required by the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of June 30, 2009.

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 the City Council  
City of Fraser, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fraser, Michigan'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*

November 20, 2009

# **City of Fraser, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the 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, 2009. 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 decreased by \$3,076,000, from \$24.745 million at June 30, 2008 to \$21.669 million at June 30, 2009. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$2,433,000 in net assets, or 15 percent, during fiscal year 2009. This decrease was primarily the result of decreases in program and general revenues and increases in program expenses. The business-type activities experienced a \$643,000 decrease in net assets. This was primarily due to a drop in capital grants and contributions and a drop in charges for services.

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows the comparison of assets (in thousands of dollars) as of June 30, 2009 to the prior year:

TABLE I (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Assets</b>						
Current assets	\$ 5,084	\$ 5,621	\$ 914	\$ 1,127	\$ 5,998	\$ 6,748
Noncurrent assets	19,912	20,940	10,231	10,012	30,143	30,952
Total assets	24,996	26,561	11,145	11,139	36,141	37,700
<b>Liabilities</b>						
Current liabilities	1,782	1,976	842	560	2,624	2,536
Long-term liabilities	9,400	8,338	2,448	2,081	11,848	10,419
Total liabilities	11,182	10,314	3,290	2,641	14,472	12,955
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	13,362	13,756	7,780	7,741	21,142	21,497
Restricted	1,688	2,188	-	-	1,688	2,188
Unrestricted (deficit)	(1,236)	303	75	757	(1,161)	1,060
Total net assets	<u>\$ 13,814</u>	<u>\$ 16,247</u>	<u>\$ 7,855</u>	<u>\$ 8,498</u>	<u>\$ 21,669</u>	<u>\$ 24,745</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 (\$1,236,000) at June 30, 2009. This represents a decrease of \$1,539,000.

# 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, 2009 and 2008:

TABLE 2 (in thousands)

	Governmental		Business-type		Total	
	2009	2008	2009	2008	2009	2008
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,478	\$ 2,705	\$ 4,403	\$ 4,719	\$ 6,881	\$ 7,424
Operating grants and contributions	871	917	-	-	871	917
Capital grants and contributions	-	870	63	297	63	1,167
General revenue:						
Property taxes	11,285	11,546	-	-	11,285	11,546
State-shared revenue	1,420	1,428	-	-	1,420	1,428
Unrestricted investment earnings	119	365	1	24	120	389
Transfers and other revenue	354	321	(153)	(130)	201	191
Total revenue	16,527	18,152	4,314	4,910	20,841	23,062
<b>Program Expenses</b>						
General government	3,857	3,380	-	-	3,857	3,380
Public safety	9,333	8,259	-	-	9,333	8,259
Public works	3,816	3,687	-	-	3,816	3,687
Recreation	1,366	1,420	-	-	1,366	1,420
Community and economic development	327	291	-	-	327	291
Interest on long-term debt	261	279	-	-	261	279
Water and sewer	-	-	4,555	4,475	4,555	4,475
Senior housing	-	-	402	403	402	403
Total program expenses	18,960	17,316	4,957	4,878	23,917	22,194
<b>Change in Net Assets</b>	<b>\$ (2,433)</b>	<b>\$ 836</b>	<b>\$ (643)</b>	<b>\$ 32</b>	<b>\$ (3,076)</b>	<b>\$ 868</b>

### Governmental Activities

The City's total governmental revenues decreased by approximately \$1,625,000 from 2008. This is primarily attributed to general decreases in almost all areas of revenue, the largest being an \$870,000 drop in capital grants and contributions. State-shared revenues have dropped by approximately \$8,000 and are indicative of the economic conditions throughout the state of Michigan.

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



# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund and the 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 \$627,000 during 2009, which is a decrease of approximately \$381,000 from 2008. The declining operating results of the Water and Sewer Fund are indicative of a downward trend in consumption coupled with increases in operating and debt service costs. As the trend continues to show, we are in a period where we will not likely see revenues on the order of the past several years. We have seen a large increase in our fixed cost obligation to pay for the expenses for the 15 Mile Road repair work, which has increased from approximately \$191,000 in 2006 to \$600,000 for the 2009-2010 fiscal year. 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 to the point of construction of a \$12.9 million gravity sewer system. The City was successful in obtaining 40 percent principal forgiveness on this project through TARPse funds, but the debt service for this project will also increase our overall expenses. The development of a required user charge system approved by the Michigan Department of Environmental Quality has been implemented and has caused grave concerns among the City's consumers. With the smallness of our utility, approximately 5,300 customers, we do not have the economy of scale of larger utilities. Therefore, increases in our costs cannot be spread among the number of customers in large utilities and drive our rates higher than average.

The above factors are creating the spiral effect of reduced consumption which drives down revenues which requires increases in rates to make up for this loss which drives down consumption. This, coupled with our sanitary sewer overflow elimination project, will only lead to more frustrated customers with higher and higher water and sewer rates.

### 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.

# City of Fraser, Michigan

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

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 \$7.9 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 management's discussion and analysis that retiree health care is becoming an increasingly larger appropriation of the general operating budget since it has not been prefunded 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 this reporting year fiscal year. An examination of pages 52-54 discusses the postemployment impacts that are reflected in the liabilities section found on page 10 of this report. It should be noted that the City's retirees have agreed to a modification of their benefits that is expected to reduce our costs in the first years by over \$100,000. They are to be congratulated for their contribution.

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 2009-2010 fiscal year, we will contribute an estimated \$1,700,000 to our pension system, of which nearly \$1,325,000 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 compare the expenditures to previous fiscal years.

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

At the end of fiscal year 2009, the City had \$37.6 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 \$7.1 million at June 30, 2009.

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

Debt of \$8.1 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 \$2.2 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 2008-2009 fiscal year as was levied in the 2007-2008 fiscal year. This same millage rate has been carried forward to the 2009-2010 fiscal year. This will be the fourth consecutive year that the millage rate has remained the same.

During the 2009-2010 fiscal year, the administration will continue to monitor revenues and expenditures and attempt to expend less than authorized by the budget. The City, as part of the 2009-2010 fiscal year budget review process, presented budgetary reductions of approximately \$520,000 under those presented in the originally submitted budget in April 2009. This level of reduction was accomplished through a combination of personnel reductions and probably the last round of smaller cuts in categories such as materials and supplies. A large portion of the reduction amounting to \$222,000 is not a structural adjustment but considers a use of the General Fund balance to pay for a debt service cost that will expire in two years.

The budgetary reductions for the 2009-2010 fiscal year have once again narrowed the gap between revenues and expenditures. The 2010-2011 scenario, however, presents unprecedented challenges for the City.

Not surprisingly, the City saw its second overall reduction in its taxable value for the 2009-2010 fiscal year. The projections for the 2010-2011 fiscal year are perhaps the most bleak to date. Early projections show that the City will see approximately \$1.2 million to \$1.4 million in expenditures over revenues led by a nearly 8 percent reduction in the overall taxable value. The City expects to see successive years of taxable value drops into the 2012-2013 fiscal year.

The City will also likely see the gap between the taxable value and the market value merge for the first time since Proposal A went into effect. When this occurs, the City's property values will be completely subjected to market trends.

As has been expressed in the previous management's discussion and analysis, expenditures continue to outstrip revenues. We now have a situation where revenues are falling in unprecedented fashion and speed. Without swift and steady discussions about realigning our structure, this City will likely lose employees and services.

City management has provided the City Council with projections and recommendations to address our structural deficit. It is expected that serious discussions on eliminating this structural deficit will begin in January 2010.

# **City of Fraser, Michigan**

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

### **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, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 4,490,486	\$ 112,374	\$ 4,602,860	\$ 7,144
Receivables:				
Customers	-	801,139	801,139	-
Special assessments	194,434	-	194,434	-
Due from other governmental units	399,296	-	399,296	-
Prepaid costs and other assets	-	24,198	24,198	-
Restricted assets	8,046	-	8,046	-
Net pension asset (Note 10)	373,000	-	373,000	-
Capital assets - Nondepreciable (Note 5)	5,100,842	1,247,240	6,348,082	-
Capital assets - Depreciable - Net (Note 5)	14,429,851	8,959,667	23,389,518	-
<b>Total assets</b>	<b>24,995,955</b>	<b>11,144,618</b>	<b>36,140,573</b>	<b>7,144</b>
<b>Liabilities</b>				
Accounts payable	166,182	595,015	761,197	-
Accrued and other liabilities	227,898	79,163	307,061	-
Deferred revenue	8,046	-	8,046	-
Other postemployment benefit obligations (Note 11)	1,828,630	180,854	2,009,484	-
Noncurrent liabilities (Note 7):				
Due within one year	1,379,591	167,535	1,547,126	-
Due in more than one year	7,571,888	2,267,821	9,839,709	-
<b>Total liabilities</b>	<b>11,182,235</b>	<b>3,290,388</b>	<b>14,472,623</b>	<b>-</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	13,361,755	7,779,679	21,141,434	-
Restricted:				
Local and major streets	810,410	-	810,410	-
Drug forfeiture	479,554	-	479,554	-
Debt service	397,323	-	397,323	-
Capital projects	598	-	598	-
Unrestricted	(1,235,920)	74,551	(1,161,369)	7,144
<b>Total net assets</b>	<b>\$ 13,813,720</b>	<b>\$ 7,854,230</b>	<b>\$ 21,667,950</b>	<b>\$ 7,144</b>

# 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	\$ 3,857,480	\$ 1,550,070	\$ 76,626	\$ -
Public safety	9,332,694	560,668	8,695	-
Public works	3,816,070	19,418	725,092	-
Recreation	1,366,225	135,601	60,273	-
Community and economic development	327,075	212,225	-	-
Interest on long-term debt	260,900	-	-	-
Total governmental activities	18,960,444	2,477,982	870,686	-
Business-type activities:				
Sewage disposal and water supply	4,555,559	3,943,244	-	62,550
Senior housing	401,654	459,885	-	-
Total business-type activities	4,957,213	4,403,129	-	62,550
Total primary government	<u>\$ 23,917,657</u>	<u>\$ 6,881,111</u>	<u>\$ 870,686</u>	<u>\$ 62,550</u>
Component units:				
Economic Development Corporation	\$ 408	\$ 320	\$ -	\$ -
Downtown Development Authority	6,698	1,550	-	-
Total component units	<u>\$ 7,106</u>	<u>\$ 1,870</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, 2009

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,230,784)	\$ -	\$ (2,230,784)	\$ -
(8,763,331)	-	(8,763,331)	-
(3,071,560)	-	(3,071,560)	-
(1,170,351)	-	(1,170,351)	-
(114,850)	-	(114,850)	-
(260,900)	-	(260,900)	-
(15,611,776)	-	(15,611,776)	-
-	(549,765)	(549,765)	-
-	58,231	58,231	-
-	(491,534)	(491,534)	-
(15,611,776)	(491,534)	(16,103,310)	-
-	-	-	(88)
-	-	-	(5,148)
-	-	-	(5,236)
11,284,731	-	11,284,731	-
1,420,344	-	1,420,344	-
118,958	569	119,527	81
201,609	-	201,609	-
152,538	(152,538)	-	-
13,178,180	(151,969)	13,026,211	81
(2,433,596)	(643,503)	(3,077,099)	(5,155)
16,247,316	8,497,733	24,745,049	12,299
<b>\$ 13,813,720</b>	<b>\$ 7,854,230</b>	<b>\$ 21,667,950</b>	<b>\$ 7,144</b>

# City of Fraser, Michigan

	General Fund	Drug Forfeiture Fund	Special Assessment - Debt Service Fund
<b>Assets</b>			
Cash and investments (Note 3)	\$ 2,736,888	\$ 483,918	\$ 102,742
Receivables - Special assessments	21,733	-	172,701
Due from other governmental units	282,208	-	-
Restricted assets	8,046	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<b><u>\$ 3,048,875</u></b>	<b><u>\$ 483,918</u></b>	<b><u>\$ 275,443</u></b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 145,609	\$ -	\$ -
Accrued and other liabilities	127,375	4,364	-
Deferred revenue (Note 4)	29,779	-	172,701
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	302,763	4,364	172,701
<b>Fund Balances - Unreserved</b>			
Special Revenue Funds	-	479,554	-
Debt Service Funds	-	-	102,742
Capital Projects Funds	-	-	-
General Fund	2,746,112	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>2,746,112</u>	<u>479,554</u>	<u>102,742</u>
Total liabilities and fund balances	<b><u>\$ 3,048,875</u></b>	<b><u>\$ 483,918</u></b>	<b><u>\$ 275,443</u></b>



**Governmental Funds  
Balance Sheet  
June 30, 2009**

Major Streets Fund	Other Governmental Funds	Total Governmental Funds
\$ 638,707	\$ 199,975	\$ 4,162,230
-	-	194,434
81,755	35,333	399,296
-	-	8,046
<u>\$ 720,462</u>	<u>\$ 235,308</u>	<u>\$ 4,764,006</u>
\$ -	\$ 4,275	\$ 149,884
10,385	8,222	150,346
-	-	202,480
10,385	12,497	502,710
710,077	100,333	1,289,964
-	121,880	224,622
-	598	598
-	-	2,746,112
<u>710,077</u>	<u>222,811</u>	<u>4,261,296</u>
<u>\$ 720,462</u>	<u>\$ 235,308</u>	<u>\$ 4,764,006</u>

# City of Fraser, Michigan

## Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2009

<b>Fund Balance - Total Governmental Funds</b>	\$ 4,261,296
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	18,973,532
Net pension assets in governmental activities are not reported in the funds	373,000
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	194,434
Bonds payable are not due and payable in the current period and are not reported in the funds	(7,733,985)
Compensated absences are included as a liability in governmental activities	(1,207,552)
Accrued interest is included as a liability in governmental activities	(75,901)
The current cost of other postemployment benefits not due and payable in the current period is not reported in the funds	(1,828,630)
Internal Service Funds are included as part of governmental activities	<u>857,526</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 13,813,720</u></b>

# City of Fraser, Michigan

	General Fund	Drug Forfeiture Fund	Special Assessment - Debt Service Fund
<b>Revenue</b>			
Property taxes	\$ 10,892,355	\$ -	\$ -
Federal sources	112,449	-	-
State sources	1,404,324	-	-
Interest on investments	84,869	8,774	16,358
Special assessments	-	-	72,424
District Court and Violations Bureau	879,132	-	-
Licenses, permits, and registrations	210,617	-	-
Other revenue	<u>1,175,365</u>	<u>165,403</u>	<u>-</u>
Total revenue	14,759,111	174,177	88,782
<b>Expenditures</b>			
Current:			
General government	2,911,142	-	-
Public safety	7,897,650	159,292	-
Public works	1,386,080	-	-
City parks and recreation	705,780	-	-
Other functions	1,113,152	-	-
Capital outlay	-	41,321	-
Debt service	<u>-</u>	<u>-</u>	<u>100,710</u>
Total expenditures	<u>14,013,804</u>	<u>200,613</u>	<u>100,710</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	745,307	(26,436)	(11,928)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	<u>(918,993)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(918,993)</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(173,686)	(26,436)	(11,928)
<b>Fund Balances - Beginning of year</b>	<u>2,919,798</u>	<u>505,990</u>	<u>114,670</u>
<b>Fund Balances - End of year</b>	<u><b>\$ 2,746,112</b></u>	<u><b>\$ 479,554</b></u>	<u><b>\$ 102,742</b></u>

**Governmental Funds  
Statement of Revenue, Expenditures, and  
Changes in Fund Balances  
Year Ended June 30, 2009**

Major Streets Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 400,014	\$ 11,292,369
-	-	112,449
506,294	218,798	2,129,416
4,558	2,337	116,896
-	-	72,424
-	-	879,132
-	-	210,617
-	106,092	1,446,860
510,852	727,241	16,260,163
-	-	2,911,142
-	-	8,056,942
655,741	721,099	2,762,920
-	-	705,780
-	-	1,113,152
-	-	41,321
-	938,443	1,039,153
655,741	1,659,542	16,630,410
(144,889)	(932,301)	(370,247)
111,599	959,932	1,071,531
-	-	(918,993)
111,599	959,932	152,538
(33,290)	27,631	(217,709)
743,367	195,180	4,479,005
<b><u>\$ 710,077</u></b>	<b><u>\$ 222,811</u></b>	<b><u>\$ 4,261,296</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, 2009

**Net Change in Fund Balances - Total Governmental Funds** \$ (217,709)

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	455,938
Depreciation expense	(1,368,356)

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 (75,435)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 692,998

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 5,618

Increase in accumulated employee compensated absences is recorded when earned in the statement of activities 13,917

The current cost of other postemployment benefits is recorded when incurred in the statement of activities (1,828,630)

Internal Service Funds are also included as governmental activities (111,937)

**Change in Net Assets of Governmental Activities** **\$ (2,433,596)**

# City of Fraser, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2009

	Business-type Activities			Governmental Activity
	Major Funds			
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ -	\$ 112,374	\$ 112,374	\$ 328,256
Receivables - Customers	801,139	-	801,139	-
Total current assets	801,139	112,374	913,513	328,256
Noncurrent assets:				
Other assets	-	24,198	24,198	-
Capital assets - Net (Note 5)	6,816,472	3,390,435	10,206,907	557,161
Total noncurrent assets	6,816,472	3,414,633	10,231,105	557,161
Total assets	7,617,611	3,527,007	11,144,618	885,417
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	595,015	-	595,015	16,298
Accrued and other liabilities	22,811	56,352	79,163	1,651
Current portion of provision for compensated absences (Note 7)	7,535	-	7,535	7,447
Current portion of long-term debt (Note 7)	-	160,000	160,000	-
Total current liabilities	625,361	216,352	841,713	25,396
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	593	-	593	2,495
Other postemployment benefit obligations (Note 11)	180,854	-	180,854	-
Long-term debt - Net of current portion (Note 7)	337,318	1,929,910	2,267,228	-
Total noncurrent liabilities	518,765	1,929,910	2,448,675	2,495
Total liabilities	1,144,126	2,146,262	3,290,388	27,891
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	6,479,154	1,300,525	7,779,679	549,714
Unrestricted	(5,669)	80,220	74,551	307,812
Total net assets	<u>\$ 6,473,485</u>	<u>\$ 1,380,745</u>	<u>\$ 7,854,230</u>	<u>\$ 857,526</u>

# City of Fraser, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2009

	Business-type Activities			Governmental Activity
	Major Funds			
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	
<b>Operating Revenue</b>				
Charges for services	\$ 3,862,676	\$ -	\$ 3,862,676	\$ -
Interest and penalties	53,285	-	53,285	-
Rents	-	451,595	451,595	684,000
Other	12,915	8,750	21,665	520
Total operating revenue	3,928,876	460,345	4,389,221	684,520
<b>Operating Expenses</b>				
Salaries	563,353	28,700	592,053	72,711
Fringe benefits	411,957	-	411,957	44,174
Material and supplies	109,095	13,947	123,042	21,368
Gas and oil	-	-	-	165,231
Repairs and maintenance	139,893	93,350	233,243	263,396
Cost of water	747,744	-	747,744	-
Cost of sewage disposal	1,831,897	-	1,831,897	-
Utilities	20,456	43,973	64,429	-
Postage	15,510	-	15,510	-
Professional services	28,555	-	28,555	-
Insurance	-	-	-	66,939
Equipment rental	187,000	-	187,000	-
Curbside recycling	86,390	-	86,390	-
Depreciation	413,128	88,793	501,921	128,997
Miscellaneous	581	14,012	14,593	38,783
Total operating expenses	4,555,559	282,775	4,838,334	801,599
<b>Operating (Loss) Income</b>	(626,683)	177,570	(449,113)	(117,079)
<b>Nonoperating Revenue (Expenses)</b>				
Tap-in fees	14,368	-	14,368	-
Interest income	15	554	569	2,062
Interest expense	-	(119,339)	(119,339)	-
Loss on sale of fixed assets	-	-	-	3,080
Total nonoperating revenue (expenses)	14,383	(118,785)	(104,402)	5,142

# City of Fraser, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended June 30, 2009

	<u>Business-type Activities</u>			Governmental Activity
	<u>Major Funds</u>		Total	
	Water and Sewer	Senior Citizen Housing Complex		
	Enterprise Funds	Internal Service Fund		
<b>(Loss) Income</b> - Before contributions	\$ (612,300)	\$ 58,785	\$ (553,515)	\$ (111,937)
<b>Capital Contributions</b>	62,550	-	62,550	-
<b>Income (Loss)</b> - Before operating transfers	(549,750)	58,785	(490,965)	(111,937)
<b>Transfers Out</b>	(152,538)	-	(152,538)	-
<b>Change in Net Assets</b>	(702,288)	58,785	(643,503)	(111,937)
<b>Net Assets</b> - Beginning of year	<u>7,175,773</u>	<u>1,321,960</u>	<u>8,497,733</u>	<u>969,463</u>
<b>Net Assets</b> - End of year	<u><b>\$ 6,473,485</b></u>	<u><b>\$ 1,380,745</b></u>	<u><b>\$ 7,854,230</b></u>	<u><b>\$ 857,526</b></u>



# City of Fraser, Michigan

	Enterprise - Water and Sewer
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 4,140,762
Payments to suppliers	(3,111,639)
Payments to employees	(563,353)
Other receipts	12,915
	<hr/>
Net cash provided by (used in) operating activities	478,685
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(586,560)
Tap-in fee collections	14,368
Transfers to other funds	(243,826)
Proceeds from sale of fixed asset	-
Proceeds from issuance of debt	337,318
Principal and interest paid on capital debt	-
	<hr/>
Net cash used in capital and related financing activities	(478,700)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<hr/> 15
<b>Net Decrease in Cash and Cash Equivalents</b>	-
<b>Cash and Cash Equivalents</b> - Beginning of year	<hr/> -
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ -</u>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>	
Operating (loss) income	\$ (626,683)
Adjustments to reconcile operating (loss) income to net cash from operating activities:	
Depreciation and amortization	413,128
Changes in assets and liabilities:	
Receivables	224,801
Other assets	-
Accounts payable	278,809
Accrued and other liabilities	188,630
	<hr/>
Net cash provided by (used in) by operating activities	<u>\$ 478,685</u>

**Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2009**

Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
\$ 451,955	\$ 4,592,717	\$ 684,000
(165,334)	(3,276,973)	(608,103)
(28,700)	(592,053)	(82,709)
8,750	21,665	520
<u>266,671</u>	<u>745,356</u>	<u>(6,292)</u>
(29,475)	(616,035)	(13,317)
-	14,368	-
-	(243,826)	-
-	-	3,080
-	337,318	-
<u>(272,853)</u>	<u>(272,853)</u>	<u>-</u>
(302,328)	(781,028)	(10,237)
<u>554</u>	<u>569</u>	<u>2,062</u>
(35,103)	(35,103)	(14,467)
<u>147,477</u>	<u>147,477</u>	<u>342,723</u>
<b><u>\$ 112,374</u></b>	<b><u>\$ 112,374</u></b>	<b><u>\$ 328,256</u></b>
\$ 177,570	\$ (449,113)	\$ (117,079)
88,793	501,921	128,997
-	224,801	-
2,525	2,525	-
(2,117)	276,692	(1,886)
<u>(100)</u>	<u>188,530</u>	<u>(16,324)</u>
<b><u>\$ 266,671</u></b>	<b><u>\$ 745,356</u></b>	<b><u>\$ (6,292)</u></b>

# City of Fraser, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2009

	Trust Funds - Pension and Other Retirement Benefits	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 2,741,309	\$ 1,141,160
Investments (Note 3):		
U.S. government securities	429,553	-
Equity securities	6,363,422	-
Corporate bonds	3,174,327	-
Mortgage obligations	2,999,830	-
Municipal bonds	54,630	-
Real estate partnerships	1,075,269	-
Mutual funds	<u>3,561,859</u>	<u>-</u>
Total assets	20,400,199	<u><u>\$ 1,141,160</u></u>
<b>Liabilities</b> - Accrued and other liabilities	<u>7,312</u>	<u><u>\$ 1,141,160</u></u>
<b>Net Assets</b> - Held in trust for pension and other postemployment benefits	<u><u>\$ 20,392,887</u></u>	

# City of Fraser, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2009

	Trust Funds - Pension and Other Retirement Benefits
<b>Additions</b>	
Investment income (loss):	
Interest and dividends	\$ 781,127
Net decrease in fair value of investments	<u>(4,527,163)</u>
Net investment loss	(3,746,036)
Contributions:	
Employer	3,057,246
Employee	<u>227,406</u>
Total contributions	<u>3,284,652</u>
Total additions - Net	(461,384)
<b>Deductions</b>	
Benefit payments	3,623,213
Administrative expenses	57,999
Investment expense	<u>100,065</u>
Total deductions	<u>3,781,277</u>
<b>Net Decrease</b>	(4,242,661)
<b>Net Assets - Beginning of year</b>	<u>24,635,548</u>
<b>Net Assets - End of year</b>	<u><u>\$ 20,392,887</u></u>

# City of Fraser, Michigan

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## Component Units Statement of Net Assets June 30, 2009

	Economic Development Corporation	Downtown Development Authority	Total
<b>Assets - Cash and investments</b>	\$ 7,322	\$ (178)	\$ 7,144
<b>Liabilities - Accrued and other liabilities</b>	-	-	-
<b>Net Assets - Unrestricted</b>	<u>\$ 7,322</u>	<u>\$ (178)</u>	<u>\$ 7,144</u>

# City of Fraser, Michigan

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	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>
Economic Development Corporation - Public works and streets	\$ 408	\$ 320	\$ -
Downtown Development Authority - Public works	<u>6,698</u>	<u>-</u>	<u>1,550</u>
Total governmental activities	<u>\$ 7,106</u>	<u>\$ 320</u>	<u>\$ 1,550</u>

**Great 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, 2009**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation	Downtown Development Authority	Total
\$ (88)	\$ -	\$ (88)
-	(5,148)	(5,148)
(88)	(5,148)	(5,236)
53	28	81
(35)	(5,120)	(5,155)
7,357	4,942	12,299
<b>\$ 7,322</b>	<b>\$ (178)</b>	<b>\$ 7,144</b>

### Note I - Summary of Significant Accounting Policies

The accounting policies of the 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 I - 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 I - 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.

**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 2008 ad valorem tax is levied and collectible on July 1, 2008 and is recognized as revenue in the year ended June 30, 2009, when the proceeds of the levy are budgeted and available for the financing of operations.

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

The 2008 taxable valuation of the City totaled approximately \$599.6 million, on which ad valorem taxes levied consisted of 16.4962 mills for operating purposes, 0.60 mills for ambulance services, and 1.042 mills for debt service. This resulted in revenue of \$9.86 million for operating, \$359,000 for ambulance services, and approximately \$623,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

**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.

**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

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

**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.

**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. At June 30, 2009, all unrestricted governmental fund balance remained undesignated.

**Pension and Other Postemployment Benefit Costs** - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

### **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.

**New Accounting Standard** - In the current year, the City implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The 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 pronouncement causes the full accrual financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid. As a result of this statement, the governmental activities and the Water and Sewer Fund reported increases in employee benefit expense of \$1,930,786 and \$190,957, respectively, in order to recognize a net OPEB liability under the standard, but there was no impact on net asset balances as of the beginning of the year. The new standard had no impact on the expenditures or fund balance reported in the governmental funds.

### **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, 2009 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 \$1,393,649 for the year ended June 30, 2009, are budgeted as transfers out rather than expenditures of the various functional departments of the City.

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

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.

**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:

	Budget	Actual
General Fund	\$ 14,871,233	\$ 14,932,797
Local Streets Fund	714,422	721,099

The General Fund variance was primarily the result of tax appeal settlements that were not part of the amended budget. The Major Streets Fund variance was due to expenses related to salaries and fringe benefits incurred that were not part of the amended budget.

**Fund Deficit** - The City has an accumulated deficit of unrestricted net assets in the Water and Sewer Fund.

**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, 2009, building department revenue and expenditures totaled approximately \$189,000 and \$264,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$75,000 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, 2009, 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, 2009, 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 \$3.4 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	\$ -	\$ 2,277,051	Counterparty
United States government bonds	-	429,553	Counterparty
Municipal bonds	-	54,630	Counterparty
Corporate bonds	-	3,174,327	Counterparty
Mutual funds	-	3,561,859	Counterparty
Equity securities	-	6,363,422	Counterparty
Money market	-	2,056,116	Counterparty
Real estate partnerships	-	1,075,269	Counterparty
Commercial mortgage obligations	-	722,779	Counterparty
Total uninsured and unregistered	<u>\$ -</u>	<u>\$ 19,715,006</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 City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
United States government agency securities	\$ -	\$ 2,277,051	17.9 years*
United States government bonds	-	429,553	14.7 years*
Corporate bonds	-	3,174,327	9.6 years*
Commercial mortgage obligations	-	722,779	17.9 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 9.75 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
United States government agency securities:			
Federal Home Loan Mortgage Corporation	\$ 1,127,929	Not rated	Not rated
Federal National Mortgage Association	1,149,122	Not rated	Not rated
Government National Mortgage Association	165,117	Not rated	Not rated
Corporate bonds	3,174,327	BBB- to AAA	S&P
Municipal bonds	54,630	AA	Fitch
Commercial mortgage obligations	722,779	AAA	S&P
Bank investment pool	642,248	A1/PI	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, 2009, the City's pension fund maintained investments in the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association totaling approximately 5.5 percent and 5.6 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	\$ 194,434	\$ -
Other local payment received prior to meeting all eligibility requirements	<u>-</u>	<u>8,046</u>
Total	<u>\$ 194,434</u>	<u>\$ 8,046</u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2009

### Note 5 - Capital Assets

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

	Balance July 1, 2008	Additions	Disposals and Adjustments	Balance June 30, 2009
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land and land improvements	\$ 5,100,842	\$ -	\$ -	\$ 5,100,842
Capital assets being depreciated:				
Roads and sidewalks	72,806,243	243,243	-	73,049,486
County road improvements	468,200	-	(18,447)	449,753
Buildings and improvements	6,320,487	194,498	-	6,514,985
Vehicles	4,383,245	13,317	(55,537)	4,341,025
Machinery and equipment	1,293,746	29,131	(31,383)	1,291,494
Furniture and fixtures	274,291	-	-	274,291
Subtotal	85,546,212	480,189	(105,367)	85,921,034
Accumulated depreciation:				
Roads and sidewalks	64,950,948	1,004,364	-	65,955,312
Buildings and improvements	1,468,163	148,720	-	1,616,883
Vehicles	2,789,002	204,308	(55,537)	2,937,773
Machinery and equipment	719,652	102,447	(31,383)	790,716
Furniture and fixtures	171,432	19,067	-	190,499
Subtotal	70,099,197	1,478,906	(86,920)	71,491,183
Net capital assets being depreciated	15,447,015	(998,717)	(18,447)	14,429,851
Net capital assets	<u>\$ 20,547,857</u>	<u>\$ (998,717)</u>	<u>\$ (18,447)</u>	<u>\$ 19,530,693</u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2009

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2008	Additions	Disposals and Adjustments	Balance June 30, 2009
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in progress	212,879	410,197	(212,879)	410,197
Subtotal	1,049,922	410,197	(212,879)	1,247,240
Capital assets being depreciated:				
Water and sewer distribution systems	13,996,471	497,242	-	14,493,713
Buildings and building improvements	3,850,292	29,475	-	3,879,767
Subtotal	17,846,763	526,717	-	18,373,480
Accumulated depreciation:				
Water and sewer distribution systems	7,686,353	413,128	-	8,099,481
Buildings and building improvements	1,225,539	88,793	-	1,314,332
Subtotal	8,911,892	501,921	-	9,413,813
Net capital assets being depreciated	8,934,871	24,796	-	8,959,667
Net capital assets	<u>\$ 9,984,793</u>	<u>\$ 434,993</u>	<u>\$ (212,879)</u>	<u>\$ 10,206,907</u>

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

<b>Governmental activities:</b>	
General government	\$ 246,290
Public safety	125,705
Public works	886,698
Recreation and culture	91,216
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	128,997
Total governmental activities	<u>\$ 1,478,906</u>
<b>Business-type activities:</b>	
Water and sewer	\$ 413,128
Senior Housing Center	88,793
Total business-type activities	<u>\$ 501,921</u>

**Construction Commitments** - The City has an active sewer construction project at year end. At year end, the City's commitments with contractors were approximately \$12,900,000.

### 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	\$ 807,394
General Fund	Major Streets Fund	<u>111,599</u>
Total governmental transfers out		918,993
<b>Business-type Activities</b>		
Water and Sewer Fund	Nonmajor governmental funds	<u>152,538</u>
Total transfers out reported in governmental and proprietary funds		<u>\$ 1,071,531</u>

During 2009, the City's General Fund made significant transfers to the Debt Service Fund to service current year debt payments and to the major and local street Special Revenue Funds for the improvement of major and local streets. The Water and Sewer Fund transferred funds to the Debt Service Funds for debt service.

### 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.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2009

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

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% -	\$250,000 -					
Maturing through 2020	4.25%	\$550,000	\$ 4,625,000	\$ -	\$ (200,000)	\$ 4,425,000	\$ 250,000
2002 Limited Tax General Obligation							
Capital Improvement Bonds:							
Amount of issue - \$1,900,000	4.00% -	\$75,000 -					
Maturing through 2023	5.00%	\$175,000	1,700,000	-	(75,000)	1,625,000	75,000
2003 General Obligation Limited Tax							
Refunding Bonds:							
Amount of issue - \$1,560,000	2.60% -	\$205,000 -					
Maturing through 2011	3.13%	\$245,000	885,000	-	(210,000)	675,000	205,000
2003 General Obligation Capital							
Improvement Bonds:							
Amount of issue - \$510,000	3.90% -	\$65,000 -					
Maturing through 2013	4.50%	\$70,000	320,000	-	(60,000)	260,000	65,000
Lease purchase agreements -							
Aerial Platform Fire Truck:							
Amount of issue - \$699,980							
Maturing through 2017	4.43%	\$62,998	566,984	-	(62,999)	503,985	62,998
Special assessment bonds -							
1996 Special Assessment Bonds:							
Amount of issue - \$1,205,000	5.25% -	\$75,000 -					
Maturing through 2012	5.45%	\$95,000	330,000	-	(85,000)	245,000	75,000
Total bond obligations			8,426,984	-	(692,999)	7,733,985	732,998
Other long-term obligations - Compensated							
absences							
			1,247,178	-	(29,684)	1,217,494	646,593
Total governmental activities			9,674,162	-	(722,683)	8,951,479	1,379,591
<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	2,365,000	-	(165,000)	2,200,000	160,000
State Revolving Fund (SRF) Limited							
Tax General Obligation Bonds:							
Series 5346-01	2.50%	\$337,318	-	337,318	-	337,318	-
Maturing through 2029							
Unamortized discount and deferred							
charges on defeasance							
	-	-	(121,578)	11,488	-	(110,090)	-
Total bond obligations			2,243,422	348,806	(165,000)	2,427,228	160,000
Other long-term obligations - Compensated							
absences							
			10,470	-	(2,342)	8,128	7,535
Total business-type activities			2,253,892	348,806	(167,342)	2,435,356	167,535
Total			\$ 11,928,054	\$ 348,806	\$ (890,025)	\$ 11,386,835	\$ 1,547,126



# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2009

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

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
2010	\$ 732,998	\$ 317,009	\$ 1,050,007	\$ 160,000	\$ 100,153	\$ 260,153
2011	802,998	287,053	1,090,051	492,318	93,709	586,027
2012	847,998	254,627	1,102,625	205,000	83,558	288,558
2013	522,998	224,350	747,348	200,000	74,448	274,448
2014	562,998	200,607	763,605	200,000	65,298	265,298
2015-2019	3,088,995	617,821	3,706,816	1,280,000	155,859	1,435,859
2020-2023	1,175,000	75,763	1,250,763	-	-	-
Total	<u>\$ 7,733,985</u>	<u>\$ 1,977,230</u>	<u>\$ 9,711,215</u>	<u>\$ 2,537,318</u>	<u>\$ 573,025</u>	<u>\$ 3,110,343</u>

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2009, \$675,000 of bonds outstanding are considered defeased.

Construction continues for projects related to the administrative consent order received from the State of Michigan Department of Environmental Quality. Portions of these projects are being financed through the Michigan State Revolving Loan Fund Program (SRF). Principal and interest payment schedules will be finalized upon completion of the projects for each individual loan. For those SRF loans which have not been finalized as of June 30, 2009, the preliminary principal and interest payment schedules are used to the amount of the advances as of that date. As a result, the payment schedules for the balance of the 20-year repayment period will increase as additional funds are advanced.

### 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.

### **Note 8 - Risk Management (Continued)**

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, which have been 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. The first phase of sewer repairs was completed in the previous year and the City continues to implement new projects that are aimed at reducing inflow infiltration. The City is currently implementing a new gravity sewer system that is scheduled for completion during 2010. This project will represent the final component for the City to be in compliance with the administrative consent order. The City estimates it will incur total costs of approximately \$9.7 million related to the construction of this project in order 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.

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

**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, 2008, 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, 2008, 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, 2008, the date of the most recent actuarial valuation, management membership consisted of 12 retirees and beneficiaries currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and three 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, 2008, the date of the most recent actuarial valuation, office and clerical membership consisted of seven retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 14 current active employees.

**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, 2008, the date of the most recent actuarial valuation, dispatcher membership consisted of one terminated employee entitled to benefits but not yet receiving them, and five current active employees.

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

**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, 2008, the date of the most recent actuarial valuation, supervisors' membership consisted of 10 retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and seven current active employees.

#### Contributions

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 the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Please refer to Note 1 for further significant accounting policies.

#### Funding Policy

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	2.55 percent to 4.57 percent
Department of Public Works	3.72 percent to 5.00 percent
Office and clerical	5.00 percent
Dispatchers	4.71 percent to 5.00 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.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2009

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

#### Annual Pension Costs

For the year ended June 30, 2009, 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	\$ 1,125,041	\$ 124,738	\$ 134,415	\$ 67,530	\$ 31,211	\$ 160,808	\$ 1,643,743
Interest on net pension (asset) obligation	(22,763)	3,196	(5,179)	(3,020)	(1,115)	(2,118)	(30,999)
Adjustment to annual required contribution	<u>27,894</u>	<u>(3,917)</u>	<u>6,346</u>	<u>3,701</u>	<u>1,366</u>	<u>2,595</u>	<u>37,985</u>
Annual pension cost	1,130,172	124,017	135,582	68,211	31,462	161,285	1,650,729
Contributions made	<u>(1,125,067)</u>	<u>(124,739)</u>	<u>(134,416)</u>	<u>(63,555)</u>	<u>(31,212)</u>	<u>(160,807)</u>	<u>(1,639,796)</u>
Change in net pension (asset) obligation	5,105	(722)	1,166	4,656	250	478	10,933
Net pension (asset) obligation - Beginning of year	<u>(286,273)</u>	<u>27,914</u>	<u>(45,505)</u>	<u>(37,610)</u>	<u>(13,714)</u>	<u>(28,745)</u>	<u>(383,933)</u>
Net pension (asset) obligation - End of year	<u>\$ (281,168)</u>	<u>\$ 27,192</u>	<u>\$ (44,339)</u>	<u>\$ (32,954)</u>	<u>\$ (13,464)</u>	<u>\$ (28,267)</u>	<u>\$ (373,000)</u>

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

Year Ended	Annual Pension Costs	Percentage Contributed	Net Pension (Asset) Obligation
<b><u>Public Safety</u></b>			
Year ended June 30:			
2007	\$ 1,134,622	101	\$ (290,616)
2008	1,162,220	100	(286,273)
2009	1,125,067	100	(281,168)
<b><u>Management Employees</u></b>			
Year ended June 30:			
2007	186,714	112	(46,567)
2008	100,093	100	(45,505)
2009	134,416	100	(44,339)
<b><u>Department of Public Works Employees</u></b>			
Year ended June 30:			
2007	149,999	93	39,960
2008	145,359	109	27,914
2009	124,739	100	27,192

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

Year Ended	Annual Pension Costs	Percentage Contributed	Net Pension (Asset) Obligation
<b><u>Office and Clerical Workers</u></b>			
Year ended June 30:			
2007	\$ 94,273	99	\$ (37,751)
2008	84,730	101	(37,610)
2009	63,555	94	(32,954)
<b><u>Dispatchers</u></b>			
Year ended June 30:			
2007	39,210	100	(13,942)
2008	33,911	100	(13,714)
2009	31,212	100	(13,464)
<b><u>Supervisors</u></b>			
Year ended June 30:			
2007	155,734	89	(26,474)
2008	185,487	101	(28,746)
2009	160,807	100	(28,267)

### **Funded Status and Funding Progress**

As of June 30, 2008, the most recent actuarial valuation date, the plan was 63.06 percent funded. The actuarial accrued liability for benefits was \$40.814 million, and the actuarial value of assets was \$25.739 million, resulting in an unfunded actuarial accrued liability of \$15.075 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6.370 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 237 percent.

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

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

#### **Actuarial Methods and Assumptions**

The annual required contribution was determined as part of an actuarial valuation at June 30, 2007 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 4 percent to 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 a closed basis. The remaining amortization period at June 30, 2009 was 22 years. Subsequent to June 30, 2009, the amortization period was reset to 30 years beginning July 1, 2009.

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

**Plan Description** - The City provides retiree healthcare benefits and dental benefits to all full-time employees and their spouses upon retirement in accordance with labor contracts. Currently, 80 retirees are eligible (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

#### **Funding Policy**

The collective bargaining agreements do not require contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment.

### Note 11 - Postemployment Benefits (Continued)

For the year ended June 30, 2009, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of June 30, 2006. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,372,473
Interest on the prior year's net OPEB obligation	-
Less adjustment to the annual required contribution	-
	<hr/>
Annual OPEB cost	3,372,473
Amounts contributed:	
Amounts contributed - Payments of current premiums	<hr/> (1,362,989)
	<hr/>
Increase in net OPEB obligation	2,009,484
OPEB obligation - Beginning of year	-
OPEB obligation - End of year	<hr/> <u>\$ 2,009,484</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current year were as follows:

Annual OPEB costs	\$ 3,372,473
Percentage contributed	40%
Net OPEB obligation	\$ 2,009,484

The funding progress of the plan as of the most recent valuation date, June 30, 2006, is as follows:

Actuarial value of assets	\$ 340,018
Actuarial accrued liability (AAL)	\$ 49,708,098
Unfunded AAL (UAAL)	\$ 49,368,080
Funded ratio	0.7%
Annual covered payroll	\$ 6,020,985
Ratio of UAAL to covered payroll	819.9%



### **Note 11 - Postemployment Benefits (Continued)**

#### **Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the June 30, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), which is expected on long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after seven years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized at a level percent on a closed basis. The remaining amortization period at June 30, 2006 was 30 years.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2009

### Note 12 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Public Safety	Management Employees	Department of Public Works	Office and Clerical Workers	Dispatchers	Supervisors	Retiree Health Care Trust
<b>Statement of Net Assets</b>							
Cash and investments	\$ 11,883,262	\$ 1,409,703	\$ 2,638,781	\$ 1,505,092	\$ 474,593	\$ 1,803,570	\$ 685,198
Liabilities	-	-	-	-	-	-	(7,312)
Total net assets	<u>\$ 11,883,262</u>	<u>\$ 1,409,703</u>	<u>\$ 2,638,781</u>	<u>\$ 1,505,092</u>	<u>\$ 474,593</u>	<u>\$ 1,803,570</u>	<u>\$ 677,886</u>
<b>Statement of Changes in Net Assets</b>							
Investment income (loss)	\$ (2,320,897)	\$ (310,639)	\$ (505,730)	\$ (280,250)	\$ (81,770)	\$ (351,688)	\$ 4,873
Contributions	1,254,512	139,091	158,485	96,889	43,252	174,973	1,417,450
Benefit payments	(1,538,223)	(359,856)	(183,218)	(71,676)	-	(219,510)	(1,250,730)
Other decreases	(34,417)	(4,382)	(7,575)	(4,248)	(1,289)	(6,088)	-
Change in net assets	<u>\$ (2,639,025)</u>	<u>\$ (535,786)</u>	<u>\$ (538,038)</u>	<u>\$ (259,285)</u>	<u>\$ (39,807)</u>	<u>\$ (402,313)</u>	<u>\$ 171,593</u>

## **Required Supplemental Information**

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# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,919,798	\$ 2,919,798	\$ 2,919,798	\$ -
<b>Resources (Inflows)</b>				
Property taxes:				
Property taxes	10,868,582	10,639,809	10,601,668	(38,141)
Payments in lieu of taxes	72,012	71,876	71,876	-
Property tax administration fees	173,060	175,060	168,550	(6,510)
Interest, penalties, and other	44,568	50,326	50,261	(65)
Total property taxes	11,158,222	10,937,071	10,892,355	(44,716)
Federal sources	129,846	113,092	112,449	(643)
State sources	1,422,507	1,364,986	1,404,324	39,338
District Court and Violations Bureau	1,083,689	917,545	879,132	(38,413)
Licenses, permits, and registrations	181,874	206,604	210,617	4,013
Interest income	277,385	137,255	84,869	(52,386)
Other:				
Recreation department	75,698	76,000	84,165	8,165
Library revenue	11,300	12,100	13,337	1,237
Other	872,011	1,127,830	1,077,863	(49,967)
Total resources (inflows)	15,212,532	14,892,483	14,759,111	(133,372)
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	90,075	92,967	95,405	(2,438)
City administration	365,087	364,453	362,879	1,574
City clerk	202,277	198,358	189,772	8,586
District Court	821,754	802,106	809,227	(7,121)
Finance	359,345	387,601	381,027	6,574
Assessor	158,868	129,419	132,015	(2,596)
Legal	138,930	113,510	131,988	(18,478)
Buildings and grounds	367,417	554,801	544,036	10,765
Total general government	2,503,753	2,643,215	2,646,349	(3,134)

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund (Continued) Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows)</b> (Continued)				
Public works	\$ 1,053,860	\$ 1,236,934	\$ 1,135,223	\$ 101,711
Public safety	7,002,849	7,001,234	7,131,143	(129,909)
Building inspection	268,597	267,597	263,818	3,779
City parks and recreation	614,023	510,251	594,288	(84,037)
Library	382,605	400,917	412,156	(11,239)
Planning Committee	48,700	30,500	33,547	(3,047)
Historical Commission	3,000	3,000	1,569	1,431
Insurance	177,160	186,747	186,747	-
Other	367,313	179,500	215,315	(35,815)
Transfers to other funds	<u>2,461,338</u>	<u>2,411,338</u>	<u>2,312,642</u>	<u>98,696</u>
 Total charges to appropriations (outflows)	 <u>14,883,198</u>	 <u>14,871,233</u>	 <u>14,932,797</u>	 <u>(61,564)</u>
 <b>Fund Balance - End of year</b>	 <b><u>\$ 3,249,132</u></b>	 <b><u>\$ 2,941,048</u></b>	 <b><u>\$ 2,746,112</u></b>	 <b><u>\$ (194,936)</u></b>

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Drug Forfeiture Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 505,990	\$ 505,990	\$ 505,990	\$ -
<b>Resources (Inflows)</b>				
Interest income	10,000	9,000	8,774	(226)
Other	<u>188,350</u>	<u>167,000</u>	<u>165,403</u>	<u>(1,597)</u>
Total resources (inflows)	198,350	176,000	174,177	(1,823)
<b>Charges to Appropriations (Outflows)</b>				
Other functions:				
Materials and supplies	90,375	129,525	135,775	(6,250)
Repairs and maintenance	6,400	6,400	5,623	777
Professional services	46,575	20,575	17,894	2,681
Capital outlay	<u>55,000</u>	<u>45,000</u>	<u>41,321</u>	<u>3,679</u>
Total charges to appropriations (outflows)	<u>198,350</u>	<u>201,500</u>	<u>200,613</u>	<u>887</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 505,990</b></u>	<u><b>\$ 480,490</b></u>	<u><b>\$ 479,554</b></u>	<u><b>\$ (936)</b></u>

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 743,367	\$ 743,367	\$ 743,367	\$ -
<b>Resources (Inflows)</b>				
State sources	540,000	510,000	506,294	(3,706)
Interest income	17,500	8,500	4,558	(3,942)
Operating transfers	<u>151,599</u>	<u>151,599</u>	<u>111,599</u>	<u>(40,000)</u>
Total resources (inflows)	709,099	670,099	622,451	(47,648)
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Salaries and fringe benefits	270,244	245,671	271,842	(26,171)
Materials and supplies	50,000	25,000	27,536	(2,536)
Repairs and maintenance	35,744	84,500	84,463	37
Equipment rental	71,000	71,000	71,000	-
Other	33,858	36,858	34,265	2,593
Capital outlay	208,253	166,373	166,635	(262)
Operating transfers	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total charges to appropriations (outflows)	<u>709,099</u>	<u>669,402</u>	<u>655,741</u>	<u>13,661</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 743,367</u></u>	<u><u>\$ 744,064</u></u>	<u><u>\$ 710,077</u></u>	<u><u>\$ (33,987)</u></u>

# City of Fraser, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (a) June 30, 2009

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:						
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
2007	14,644,683	24,377,221	9,732,538	60	3,528,233	276
2008	15,478,663	25,904,357	10,425,694	60	3,924,628	266
<b>Management Employees</b>						
June 30:						
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
2007	2,208,367	4,333,245	2,124,878	51	276,422	769
2008	2,084,926	4,339,356	2,254,430	48	228,112	988
<b>Department of Public Works</b>						
June 30:						
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
2007	3,137,677	3,604,917	467,240	87	870,724	54
2008	3,388,205	3,846,464	458,259	88	908,883	50
<b>Office and Clerical Workers</b>						
June 30:						
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
2007	1,759,717	1,905,800	146,083	92	554,517	26
2008	1,883,425	2,025,467	142,042	93	567,235	25
<b>Dispatchers</b>						
June 30:						
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
2007	479,919	535,964	56,045	90	233,032	24
2008	549,483	614,450	64,967	89	255,538	25
<b>Supervisors</b>						
June 30:						
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
2007	2,216,284	3,996,510	1,780,226	55	532,480	334
2008	2,353,893	4,084,140	1,730,247	58	485,350	356

(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, 2009

Year Ended	Annual Required Contribution	Percentage Contributed
<b><u>Public Safety</u></b>		
Year ended June 30:		
2004	\$ 694,625	99
2005	792,090	98
2006	1,003,146	96
2007	1,118,438	101
2008	1,162,219	100
2009	1,125,067	100
<b><u>Management Employees</u></b>		
Year ended June 30:		
2004	108,404	99
2005	161,292	87
2006	164,989	100
2007	166,634	112
2008	100,092	100
2009	134,416	100
<b><u>Department of Public Works Employees</u></b>		
Year ended June 30:		
2004	101,605	101
2005	104,969	94
2006	115,276	96
2007	161,388	93
2008	133,969	109
2009	124,739	109
<b><u>Office and Clerical Workers</u></b>		
Year ended June 30:		
2004	71,804	95
2005	79,398	96
2006	83,637	96
2007	94,783	99
2008	84,251	101
2009	63,555	101
<b><u>Dispatchers</u></b>		
Year ended June 30:		
2004	31,019	99
2005	28,340	99
2006	31,619	96
2007	39,210	100
2008	33,910	100
2009	31,212	100
<b><u>Supervisors</u></b>		
Year ended June 30:		
2004	99,033	101
2005	95,058	95
2006	102,541	96
2007	175,504	89
2008	182,780	101
2009	160,807	101

# City of Fraser, Michigan

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## Required Supplemental Information Pension System Schedule of Employer Contributions (Continued) June 30, 2009

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, 2008 are as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of pay, closed, 22-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

# City of Fraser, Michigan

## Required Supplemental Information Other Postemployment Benefit System Schedules of Funding Progress and Employer Contributions June 30, 2009

The schedule of funding progress is as follows:

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
06/30/06	\$ 340,018	\$ 49,708,098	\$ 49,368,080	0.7%	\$ 6,020,985	819.9%

The schedule of employer contributions is as follows:

Years Ended June 30	Contribution Rates as a Percentage of Payroll	Annual Required Contribution Based on Actual Payroll	Percentage Contributed
2009	50.8%	\$ 3,372,473	40%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of pay, closed
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	5.0%
Includes inflation at	4.5%
Cost of living adjustments	None

## **Other Supplemental Information**

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# City of Fraser, Michigan

	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds	
	Local Streets	General Obligation	Motor Vehicle Highway
<b>Assets</b>			
Cash and investments	\$ 77,497	\$ 121,880	\$ -
Due from other governmental units	35,333	-	-
Total assets	<u>\$ 112,830</u>	<u>\$ 121,880</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,275	\$ -	\$ -
Accrued and other liabilities	8,222	-	-
Total liabilities	12,497	-	-
<b>Fund Balances - Reserved</b>	<u>100,333</u>	<u>121,880</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 112,830</u>	<u>\$ 121,880</u>	<u>\$ -</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2009**

<u>Nonmajor Capital Projects Fund</u>	<u>Special Assessments</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 598	\$ 199,975	
<u>-</u>	<u>35,333</u>	
<b><u>\$ 598</u></b>	<b><u>\$ 235,308</u></b>	

\$ -	\$ 4,275
<u>-</u>	<u>8,222</u>
-	12,497
<u>598</u>	<u>222,811</u>
<b><u>\$ 598</u></b>	<b><u>\$ 235,308</u></b>

# City of Fraser, Michigan

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	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds	
	Local Streets	General Obligation	Motor Vehicle Highway
<b>Revenue</b>			
Property taxes	\$ -	\$ 400,014	\$ -
State sources	218,798	-	-
Interest on investments	117	2,217	-
Other revenue	19,152	-	86,940
Total revenue	238,067	402,231	86,940
<b>Expenditures</b>			
Current - Public works	721,099	-	-
Debt service	-	851,503	86,940
Total expenditures	721,099	851,503	86,940
<b>Excess of Revenue Over (Under) Expenditures</b>	(483,032)	(449,272)	-
<b>Other Financing Sources</b> - Transfers in	502,016	457,916	-
<b>Change in Fund Balances</b>	18,984	8,644	-
<b>Fund Balances</b> - Beginning of year	81,349	113,236	-
<b>Fund Balances</b> - End of year	<u>\$ 100,333</u>	<u>\$ 121,880</u>	<u>\$ -</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2009**

<u>Nonmajor Capital Projects Fund</u>	Total Nonmajor Governmental Funds
<u>Special Assessments</u>	
\$ -	\$ 400,014
-	218,798
3	2,337
-	<u>106,092</u>
3	727,241
-	721,099
-	<u>938,443</u>
-	<u>1,659,542</u>
3	(932,301)
-	<u>959,932</u>
3	27,631
<u>595</u>	<u>195,180</u>
<u><b>\$ 598</b></u>	<u><b>\$ 222,811</b></u>



# City of Fraser, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Local Streets Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 81,349	\$ 81,349	\$ 81,349	\$ -
<b>Resources (Inflows)</b>				
State sources	231,000	201,000	218,798	17,798
Other	7,500	16,611	19,152	2,541
Interest income	502	502	117	(385)
Operating transfers	<u>502,016</u>	<u>502,016</u>	<u>502,016</u>	<u>-</u>
Total resources (inflows)	741,018	720,129	740,083	19,954
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Salaries and fringe benefits	300,629	283,913	302,358	(18,445)
Materials and supplies	70,940	45,000	42,069	2,931
Repairs and maintenance	47,579	87,684	79,853	7,831
Equipment rental	177,000	177,000	177,000	-
Other	1,804	1,825	1,828	(3)
Capital outlay	<u>143,065</u>	<u>119,000</u>	<u>117,991</u>	<u>1,009</u>
Total charges to appropriations (outflows)	<u>741,017</u>	<u>714,422</u>	<u>721,099</u>	<u>(6,677)</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 81,350</u></u>	<u><u>\$ 87,056</u></u>	<u><u>\$ 100,333</u></u>	<u><u>\$ 13,277</u></u>

# City of Fraser, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2009

	Pension Trust	Retiree Health Care Trust	Pension and Other Employee Benefit Trust Fund Totals
<b>Assets</b> - Cash and investments	\$ 19,715,001	\$ 685,198	\$ 20,400,199
<b>Liabilities</b> - Accrued and other liabilities	<u>-</u>	<u>7,312</u>	<u>7,312</u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 19,715,001</u>	<u>\$ 677,886</u>	<u>\$ 20,392,887</u>

# City of Fraser, Michigan

	Public Safety	Management Employees	Department of Public Works
<b>Additions</b>			
Investment income (loss):			
Interest and dividends	\$ 467,479	\$ 59,615	\$ 102,840
Net increase in fair value of investments	(2,728,121)	(362,509)	(595,325)
Less investment expenses	<u>(60,255)</u>	<u>(7,745)</u>	<u>(13,245)</u>
Net investment income (loss)	(2,320,897)	(310,639)	(505,730)
Contributions:			
City	1,125,067	134,416	124,739
Employee	<u>129,445</u>	<u>4,675</u>	<u>33,746</u>
Total contributions	<u>1,254,512</u>	<u>139,091</u>	<u>158,485</u>
Total additions - Net	(1,066,385)	(171,548)	(347,245)
<b>Deductions</b>			
Benefit payments	1,538,223	359,856	183,218
Administrative expenses	<u>34,417</u>	<u>4,382</u>	<u>7,575</u>
Total deductions	<u>1,572,640</u>	<u>364,238</u>	<u>190,793</u>
<b>Net Increase (Decrease) in Net Assets</b>	(2,639,025)	(535,786)	(538,038)
<b>Net Assets Held in Trust for Pension and Other Benefits</b>			
Beginning of year	<u>14,522,287</u>	<u>1,945,489</u>	<u>3,176,819</u>
End of year	<u><b>\$ 11,883,262</b></u>	<u><b>\$ 1,409,703</b></u>	<u><b>\$ 2,638,781</b></u>

**Other Supplemental Information**  
**Combining Statement of Changes in Net Assets by Retiree Group**  
**Trust Funds**  
**Year Ended June 30, 2009**

Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund	Retiree Health Care Trust	Trust Fund Total
\$ 57,703	\$ 17,468	\$ 71,149	\$ 776,254	\$ 4,873	\$ 781,127
(330,534)	(97,005)	(413,669)	(4,527,163)	-	(4,527,163)
(7,419)	(2,233)	(9,168)	(100,065)	-	(100,065)
(280,250)	(81,770)	(351,688)	(3,850,974)	4,873	(3,846,101)
63,555	31,212	160,807	1,639,796	1,417,450	3,057,246
33,334	12,040	14,166	227,406	-	227,406
96,889	43,252	174,973	1,867,202	1,417,450	3,284,652
(183,361)	(38,518)	(176,715)	(1,983,772)	1,422,323	(561,449)
71,676	-	219,510	2,372,483	1,250,730	3,623,213
4,248	1,289	6,088	57,999	-	57,999
75,924	1,289	225,598	2,430,482	1,250,730	3,681,212
(259,285)	(39,807)	(402,313)	(4,414,254)	171,593	(4,242,661)
1,764,377	514,400	2,205,883	24,129,255	506,293	24,635,548
<b><u>\$ 1,505,092</u></b>	<b><u>\$ 474,593</u></b>	<b><u>\$ 1,803,570</u></b>	<b><u>\$ 19,715,001</u></b>	<b><u>\$ 677,886</u></b>	<b><u>\$ 20,392,887</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 - Cash and investments</b>	<u>\$ 11,883,262</u>	<u>\$ 1,409,703</u>	<u>\$ 2,638,781</u>
<b>Net Assets - Held in trust for pension benefits</b>	<u><u>\$ 11,883,262</u></u>	<u><u>\$ 1,409,703</u></u>	<u><u>\$ 2,638,781</u></u>

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**Other Supplemental Information  
Combining Statement of Net Assets by Retiree Group  
Pension Trust Fund  
Year Ended June 30, 2009**

Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund
<u>\$ 1,505,092</u>	<u>\$ 474,593</u>	<u>\$ 1,803,570</u>	<u>\$ 19,715,001</u>
<u><b>\$ 1,505,092</b></u>	<u><b>\$ 474,593</b></u>	<u><b>\$ 1,803,570</b></u>	<u><b>\$ 19,715,001</b></u>

# **City of Fraser, Michigan**

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**Report to the City Council**

**June 30, 2009**



**Plante & Moran, PLLC**  
 Suite 300  
 19176 Hall Road  
 Clinton Township, MI 48038  
 Tel: 586.416.4900  
 Fax: 586.416.4901  
 plantemoran.com

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

We have recently completed our audit of the basic financial statements of City of Fraser, Michigan (the "City") for the year ended June 30, 2009. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, and informational comments which impact the City:

	<u>Page</u>
<b>Report on Internal Control</b>	2-4
<b>Results of the Audit</b>	5-8
<b>Informational - Legislative Matters, etc.</b>	9-12

This communication is intended solely for the information and use of management, the Honorable Mayor, and members of the City Council and is not intended to be and should not be used by anyone other than these specified parties.

We are grateful for the opportunity to be of service to the City of Fraser, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

**Plante & Moran, PLLC**

David W. Herrington







Plante & Moran, PLLC  
Suite 300  
19176 Hall Road  
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Fax: 586.416.4901  
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## Report on Internal Control

November 20, 2009

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

Dear Mayor and Council Members:

As you are aware, auditing standards require auditors to communicate matters to the City Council that may be useful to you in your oversight of the City of Fraser, Michigan's (the "City") financial management. Specifically, they require us to report internal control issues to you that may be relatively minor in order to allow you to evaluate their significance, and make the changes you deem appropriate. The purpose of these standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this 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 of Fraser, Michigan as of and for the year ended June 30, 2009, 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 certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

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

November 20, 2009

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. We believe that the following deficiency constitutes a significant deficiency.

**Year-end Accounts Payable Accruals** - During the course of our testing, we identified several amounts that were improperly excluded from accounts payable as of June 30, 2009. We proposed entries to record accounts payable items and management posted the correcting entries. We suggest that a thorough review of amounts paid after year end be performed to identify goods and services received prior to June 30 that should be included in the year-end accounts payable accrual.

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 that the following deficiencies constitute material weaknesses.

**Year-end Closing Adjustments** - During the audit, we generally provide assistance in identifying and calculating the numerous year-end accrual adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB Statement 34. Accruals represent adjustments other than cash activity that impact the accounting records (accounts payable, capital assets, net pension asset, etc.). We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as pension reserves and long-term debt reporting) and researching proper accounting treatment for significant unusual transactions that may occur during the year. 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.

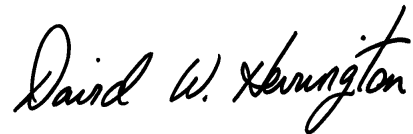
To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

November 20, 2009

**Account Reconciliations** - Sound internal control includes the reconciliation of general ledger accounts to supporting subsidiary ledgers, reports, and third-party statements on a periodic basis. During our audit, we noted that the City's cash accounts and retirement system accounts were not reconciled to supporting records in a timely manner. The monthly reconciliation of accounts helps ensure that accurate financial information is available on a timely basis and serves as an important internal control. We recommend that bank reconciliations be performed in a timely manner, and that items requiring adjustment to the general ledger or communication with the bank be addressed concurrently with the reconciliation process. Sound internal controls also include document retention policies and secondary reviews.

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 'D' and 'H'.

David W. Herrington

## Results of the Audit

November 20, 2009

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

Dear Mayor and Council Members

We have audited the financial statements of the City of Fraser, Michigan (the "City") for the year ended June 30, 2009 and have issued our report thereon dated November 20, 2009. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 19, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated August 14, 2009.

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

November 20, 2009

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used by the City are described in Note I to the financial statements. As described in Note I, the City implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*, in the current year. 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 (OPEB). The new pronouncement causes the government-wide and Enterprise Fund financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the actuarially determined liabilities related to the pension and other postemployment benefit obligations

Management's estimate of the pension and other postemployment obligations is based on actuarial methods. We evaluated the key factors and assumptions used to develop the estimated obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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

November 20, 2009

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole, except for an adjustment related to the OPEB obligation at year end.

### **Disagreements with Management**

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 20, 2009.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

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

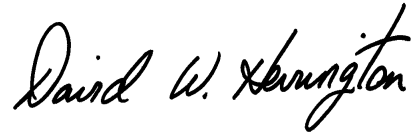
November 20, 2009

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility relates to the City's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the management's discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

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

# **Informational**

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### Fund Deficits

As disclosed in the notes to the financial statements, the Water and Sewer Fund has a deficit of unrestricted net assets at June 30, 2009.

### Property Tax Revenue

Communities in Michigan continue to face challenges presented by the real estate market decline which are further magnified by effects of Proposal A. Some communities are seeing a decline in overall taxable value this year - many will see similar or greater declines in future years. The impact on each community and over what period of time will vary. The one constant, however, is that there will be an impact that each community needs to consider come budget time.

Many of the bills related to property taxes pending at the end of the 2008 Michigan legislative session have subsequently died with the changeover in the legislature after the November 2008 election. However, a few of those bills have been reintroduced. One series of bills that is worthy of specific mention is the reintroduction of the concept of the "supercap" legislation from last year.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have been reminded, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Because many property owners feel it is unfair to see their taxable value increase in a declining market, a third variable, called "change in market value," was proposed last year to be added to the Proposal A formula.

Under the legislation introduced last year, the Proposal A formula to determine annual increases in taxable value (if the property is not sold or transferred) would have been changed to the lesser of three components: inflation, change in market values, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. This measure passed the House in 2008 but did not advance further.

In January 2009, several versions of this legislation were introduced which reinstate a similar constitutional amendment. Such a change would ultimately need to be approved by the voters before it can be enacted.

### Revenue Sharing

As you are aware, the legislature has been working to pass the State's budget for fiscal year 2009-2010. The budget deadline (September 30) came and went and there was not a final agreement on the budget. As a result, a continuation budget was passed to get the State through the next 30 days. There is discussion that the legislature may look for additional revenues to restore some of the cuts that had been passed by both the Senate and the House (but not signed into law by the governor), including significant cuts to revenue sharing for local governments.

It appears that the total revenue-sharing payments (constitutional and statutory) will be reduced by an overall factor of 11.06 percent if the budgets that came out of conference are ultimately enacted. The constitutional portion is expected to decrease based on the May 2009 revenue-estimating conference from \$649 million to \$621 million (about 4 percent). The statutory portion is expected to be cut from \$388 million to \$314 million (about 19 percent).

Communities that no longer receive the statutory portion will see a decline of about 4 percent. Those that still have statutory revenue sharing will see a much larger decline. The 11.06 percent that is being reported is the total amount of the cut, but the specific cuts will vary widely by community. We encourage you to continue to budget very conservatively when it comes to revenue sharing because a long-term solution to the State's structural deficit has not yet been identified.

### Upcoming Accounting Change - GASB 54 Redefines Fund Balance Components

The Governmental Accounting Standards Board has recently issued a new pronouncement, GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB No. 54 eliminates the current use of the terms "reserved" and "designated" in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The standard is effective for periods beginning after June 15, 2010 (which would be the City's fiscal year ending June 30, 2011).

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** - Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.
- **Restricted** - Reflects the same definition as restricted net assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.

- **Committed** - Includes amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.
- **Assigned** - Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Commission itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the Commission. This would include any activity reported in a fund other than the General Fund.
- **Unassigned** - Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated."

The standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the City to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.