

City of Fraser  
Year Ended June 30, 2014

Audit Presentation  
January 8, 2015

Presented by:  
Aaron M. Stevens, CPA  
Principal



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

The background image is a close-up, blue-tinted photograph of a desk. On the left, a portion of a calculator is visible, showing buttons for '+', '=', and '-'. In the center, a silver and black pen lies diagonally across a document. The document features a line graph with a grid. The y-axis has numerical values: 120, 125, 130, 135, 140, 145. The x-axis has labels for 'Tues.' and 'Wed.'. A blue line graph is plotted on the grid. In the bottom right corner of the document, there is a table with the header 'Pct. chg. Day' and a row with '0.2%' and '1.0%'.

SETTING THE STANDARD FOR QUALITY  
GOVERNMENTAL AUDITS

## Principals

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Aaron M. Stevens, CPA  
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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principles***

As discussed in Note O, during the year the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. As a result, the financial statements now include substantially different note disclosures and required supplementary information related to the pension trust fund. Our opinions are not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and other post-employment benefit schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements, individual nonmajor special revenue fund budgetary comparison schedules, and combining fiduciary financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, individual nonmajor special revenue fund budgetary comparison schedules, and combining fiduciary fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, individual nonmajor special revenue fund budgetary comparison schedules, and combining fiduciary fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 30, 2014

City of Fraser

**STATEMENT OF NET POSITION**

June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 978,510	\$ 1,584,920	\$ 2,563,430
Restricted cash and cash equivalents	8,097	86,363	94,460
Investments	2,514,973	-	2,514,973
Receivables	200,298	1,295,556	1,495,854
Due from other governmental units	257,212	-	257,212
Internal balances	364	(364)	-0-
Prepays	51,216	1,878	53,094
<b>Total current assets</b>	<b>4,010,670</b>	2,968,353	6,979,023
Noncurrent assets			
Capital assets not being depreciated	4,971,058	837,043	5,808,101
Capital assets being depreciated, net	11,446,420	28,733,054	40,179,474
<b>Total noncurrent assets</b>	<b>16,417,478</b>	29,570,097	45,987,575
<b>TOTAL ASSETS</b>	<b>20,428,148</b>	32,538,450	52,966,598
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	209,144	719,106	928,250
Accrued liabilities	286,073	8,091	294,164
Due to other governmental units	2,233	-	2,233
Unearned revenue	8,097	-	8,097
Accrued interest payable	29,506	106,688	136,194
Current portion of compensated absences	589,033	2,640	591,673
Current portion of long-term debt	646,197	863,842	1,510,039
<b>Total current liabilities</b>	<b>1,770,283</b>	1,700,367	3,470,650
Noncurrent liabilities			
Net pension obligation	388,984	-	388,984
Net other post-employment benefits obligation	16,634,608	1,541,261	18,175,869
Noncurrent portion of compensated absences	497,868	-	497,868
Noncurrent portion of long-term debt	3,750,425	15,047,480	18,797,905
<b>Total noncurrent liabilities</b>	<b>21,271,885</b>	16,588,741	37,860,626
<b>TOTAL LIABILITIES</b>	<b>23,042,168</b>	18,289,108	41,331,276
<b>NET POSITION</b>			
Net investment in capital assets	12,020,856	13,658,775	25,679,631
Restricted			
Streets and highways	338,715	-	338,715
Health and welfare	332,400	-	332,400
Public safety	1,025,505	-	1,025,505
Unrestricted	(16,331,496)	590,567	(15,740,929)
<b>TOTAL NET POSITION</b>	<b>\$ (2,614,020)</b>	<b>\$ 14,249,342</b>	<b>\$ 11,635,322</b>

**CA/CL = 2.3**

**Unrestricted net position  
\$3.7 million lower than  
prior year**

City of Fraser

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014

Functions/Programs	Program Revenues			Primary Government		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities						
General government	\$ 3,072,978	\$ 1,642,864	\$ 59,144	\$ (1,370,970)	\$ -	\$ (1,370,970)
Public safety	9,179,788	644,400	14,362	(8,521,026)	-	(8,521,026)
Public works	3,944,559	203,869	803,159	(2,937,531)	-	(2,937,531)
Health and welfare	645,634	311,112	-	(334,522)	-	(334,522)
Community and economic development	23,291	-	-	(23,291)	-	(23,291)
Recreation and culture	1,098,317	134,855	3,959	(959,503)	-	(959,503)
Interest on long-term debt	120,517	-	-	(120,517)	-	(120,517)
Total governmental activities	18,085,084	2,937,100	880,624	(14,267,360)	-0-	(14,267,360)
Business-type activities						
Water and Sewer	6,353,627	6,601,753	-	-	248,126	248,126
Senior Citizen Housing Complex	328,026	503,499	-	-	175,473	175,473
Total business-type activities	6,681,653	7,105,252	-0-	-0-	423,599	423,599
Total primary government	<u>\$ 24,766,737</u>	<u>\$ 10,042,352</u>	<u>\$ 880,624</u>	(14,267,360)	423,599	(13,843,761)
General revenues						
Property taxes				9,337,053	-	9,337,053
State shared revenues				1,271,674	-	1,271,674
Investment earnings				6,802	12,614	19,416
Miscellaneous				68,459	-	68,459
Transfers				135,700	(135,700)	-0-
Total general revenues and transfers				10,819,688	(123,086)	10,696,602
Change in net position				(3,447,672)	300,513	(3,147,159)
Restated net position, beginning of the year				833,652	13,948,829	14,782,481
Net position, end of the year				<u>\$ (2,614,020)</u>	<u>\$ 14,249,342</u>	<u>\$ 11,635,322</u>

See accompanying notes to financial statements.

City of Fraser

Governmental Funds

**BALANCE SHEET**

June 30, 2014

	General Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 696,120	\$ 696,120
Restricted cash and cash equivalents	8,097	-	8,097
Investments	2,060,531	454,442	2,514,973
Receivables			
Accounts	41,997	120	42,117
Taxes	140,711	-	140,711
Special assessments	7,240	-	7,240
Due from other governmental units	103,991	153,221	257,212
Due from other funds	491,767	1,124,781	1,616,548
Prepays	48,394	2,722	51,116
<b>TOTAL ASSETS</b>	<b>\$ 2,902,728</b>	<b>\$ 2,431,406</b>	<b>\$ 5,334,134</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 172,815	\$ 24,505	\$ 197,320
Accrued liabilities	278,877	5,981	284,858
Due to other funds	907,615	711,069	1,618,684
Due to other governmental units	-	2,233	2,233
Unearned revenue	8,097	-	8,097
<b>TOTAL LIABILITIES</b>	<b>1,367,404</b>	<b>743,788</b>	<b>2,111,192</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	12,046	-0-	12,046
<b>FUND BALANCES</b>			
Nonspendable			
Prepays	48,394	2,722	51,116
Restricted			
Streets and highways	-	337,513	337,513
Health and welfare	-	331,960	331,960
Public safety	-	1,025,505	1,025,505
Unassigned	1,474,884	(10,082)	1,464,802
<b>TOTAL FUND BALANCES</b>	<b>1,523,278</b>	<b>1,687,618</b>	<b>3,210,896</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 2,902,728</b>	<b>\$ 2,431,406</b>	<b>\$ 5,334,134</b>

~12% of expenditures  
and OFU for the year



City of Fraser

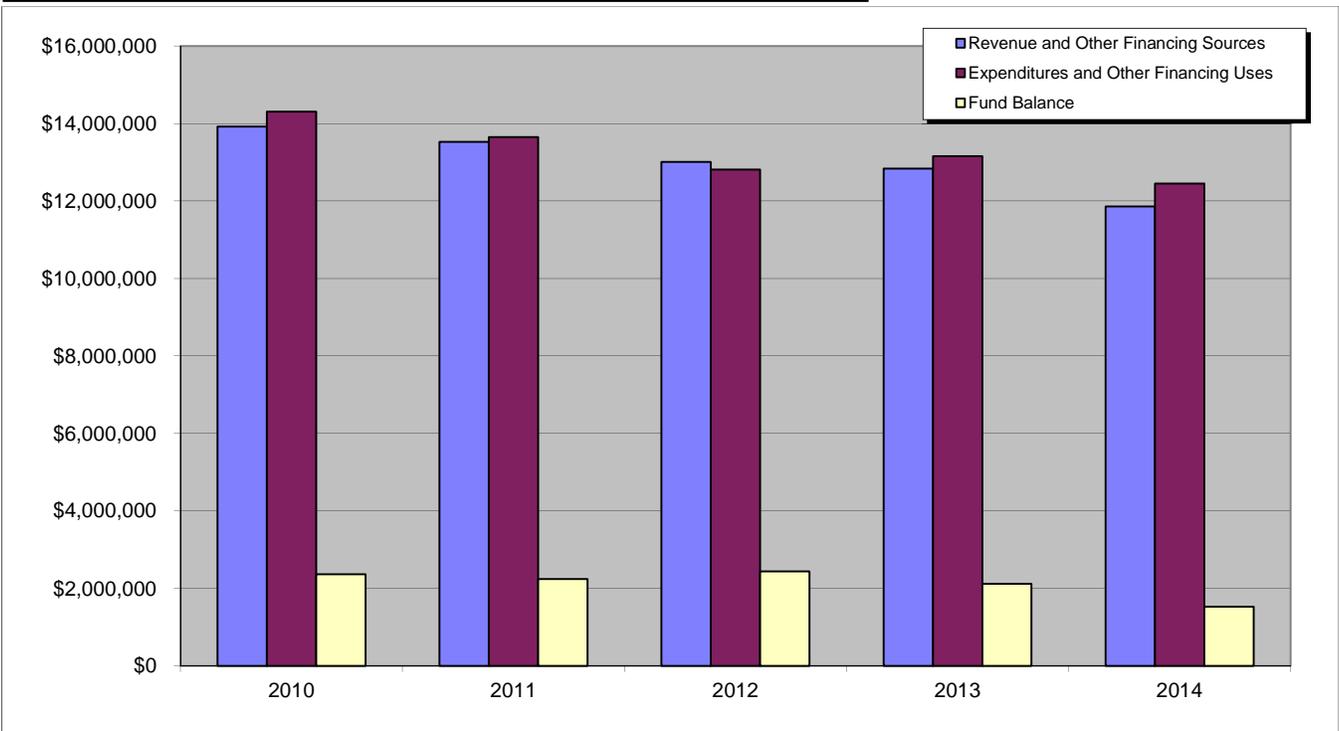
Governmental Funds

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

Year Ended June 30, 2014

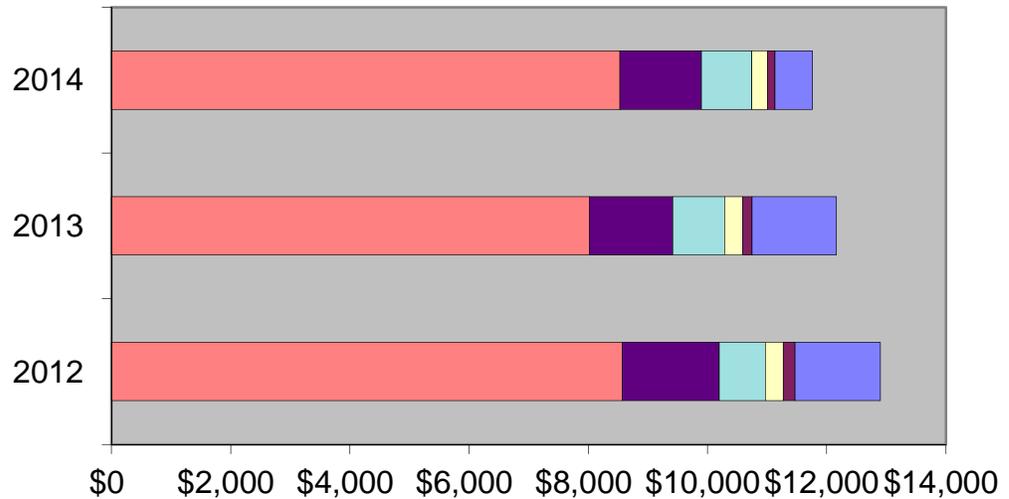
	General Fund	Nonmajor Governmental Funds	Total
<b>REVENUES</b>			
Taxes	\$ 8,531,071	\$ 1,090,032	\$ 9,621,103
Licenses and permits	267,635	-	267,635
Intergovernmental			
Federal	18,321	-	18,321
State	1,350,233	816,078	2,166,311
District Court and Violations Bureau	843,816	-	843,816
Charges for services	235,418	288,439	523,857
Fines and forfeitures	106,915	449,100	556,015
Interest and rents	122,363	2,490	124,853
Other	378,402	1,399	379,801
<b>TOTAL REVENUES</b>	<b>11,854,174</b>	2,647,538	14,501,712
<b>EXPENDITURES</b>			
Current			
General government	1,972,098	-	1,972,098
Public safety	5,993,808	469,991	6,463,799
Public works	1,434,354	773,040	2,207,394
Health and welfare	-	542,248	542,248
Community and economic development	19,561	-	19,561
Recreation and culture	720,568	-	720,568
Other	2,273,767	-	2,273,767
Capital outlay	-	385,156	385,156
Debt service	15,437	738,029	753,466
<b>TOTAL EXPENDITURES</b>	<b>12,429,593</b>	2,908,464	15,338,057
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(575,419)</b>	<b>(260,926)</b>	<b>(836,345)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	292,476	292,476
Transfers out	(17,095)	(137,341)	(154,436)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(17,095)</b>	<b>155,135</b>	<b>138,040</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(592,514)</b>	<b>(105,791)</b>	<b>(698,305)</b>
Fund balances, beginning of year	2,115,792	1,793,409	3,909,201
Fund balances, end of year	<u>\$ 1,523,278</u>	<u>\$ 1,687,618</u>	<u>\$ 3,210,896</u>

**General Fund - Revenues, Expenditures, and Fund Balance  
Five Year Trend**



## General Fund Revenue

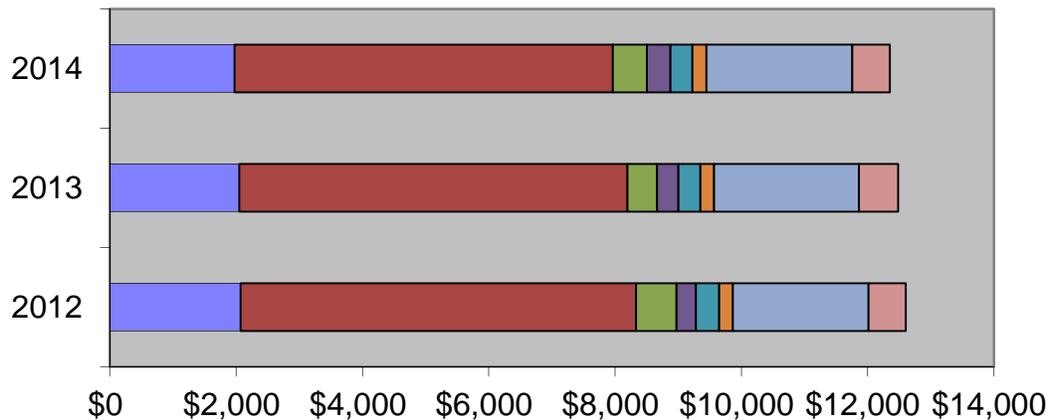
(In Thousands)



	2012	2013	2014
Property Taxes	\$8,573	\$8,023	\$8,531
Federal & State Sources	\$1,623	\$1,397	\$1,368
District Court	\$775	\$869	\$844
Licenses and Permits	\$299	\$303	\$268
Interest	\$198	\$154	\$122
Other	\$1,431	\$1,418	\$624

## General Fund Expenditures

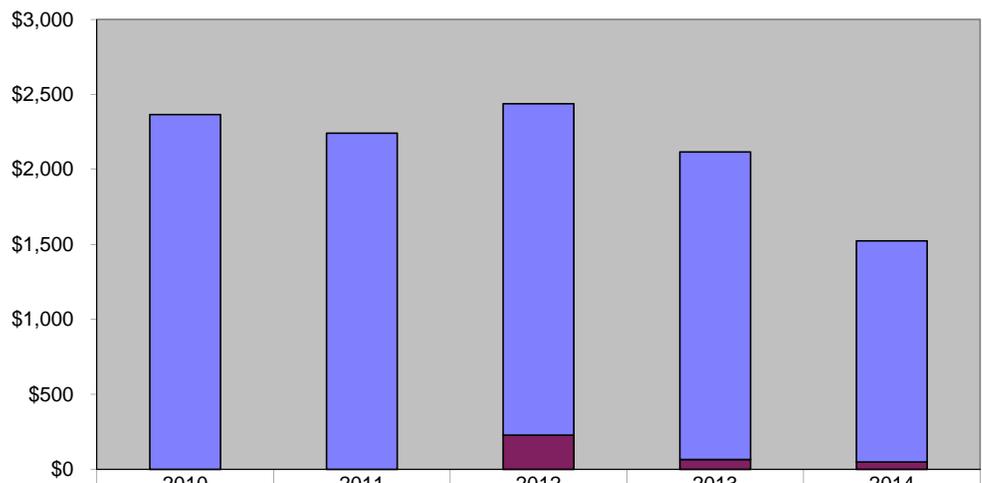
(In Thousands)



	2012	2013	2014
General Government	\$2,068	\$2,052	\$1,972
Public Safety	\$6,263	\$6,145	\$5,994
Public Works	\$645	\$468	\$540
Recreation	\$307	\$338	\$372
Library	\$365	\$348	\$348
Building Inspection	\$216	\$217	\$224
Other	\$2,153	\$2,295	\$2,309
Operating Transfers	\$589	\$623	\$591

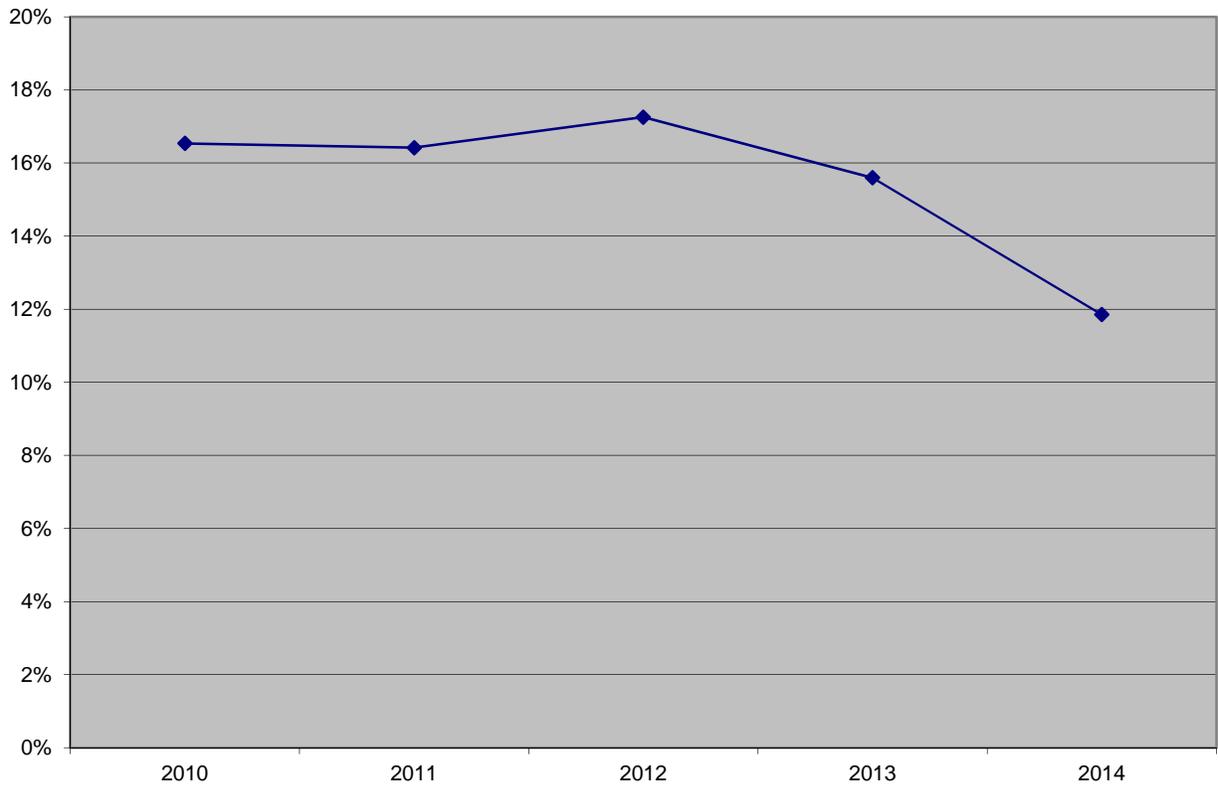
**General Fund Fund Balance**

(In Thousands)

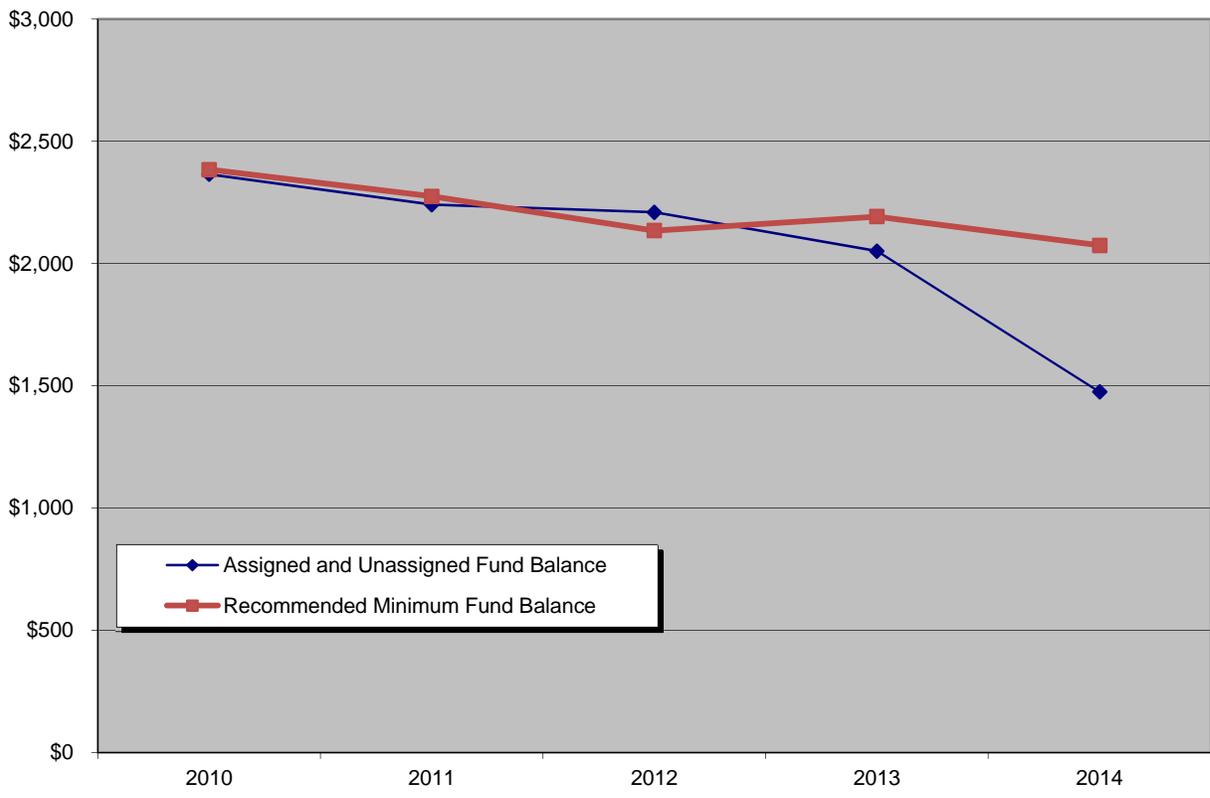


Assigned and Unassigned Fund Balance	\$2,365	\$2,241	\$2,210	\$2,051	\$1,475
Nonspend., Restricted, and Committed Fund Balance	\$0	\$0	\$228	\$65	\$48

### General Fund Unrestricted Fund Balance as a Percentage of Expenditures and Other Financing Uses



### General Fund Unrestricted Fund Balance vs. Minimum Recommended Fund Balance (in Thousands)



City of Fraser

Proprietary Funds

**STATEMENT OF NET POSITION**

Year Ended June 30, 2014

	Business-type Activities			Governmental
	Nonmajor		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Senior Citizen Housing Complex Fund		
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,429,272	\$ 155,648	\$ 1,584,920	\$ 282,390
Restricted cash and cash equivalents	86,363	-	86,363	-
Accounts receivable	-	-	-0-	10,230
Customer receivables	1,295,556	-	1,295,556	-
Due from other funds	-	-	-0-	2,500
Prepaid expenses	1,878	-	1,878	100
Total current assets	<b>2,813,069</b>	155,648	2,968,717	295,220
Noncurrent assets				
Capital assets not being depreciated	12,043	825,000	837,043	-
Capital assets being depreciated, net	26,589,975	2,143,079	28,733,054	184,428
Total noncurrent assets	26,602,018	2,968,079	29,570,097	184,428
<b>TOTAL ASSETS</b>	29,415,087	3,123,727	32,538,814	479,648
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	675,624	43,482	719,106	11,824
Accrued liabilities	7,327	764	8,091	1,215
Due to other funds	-	364	364	-
Accrued interest payable	103,546	3,142	106,688	-
Current portion of compensated absences	2,640	-	2,640	3,406
Current portion of long-term debt	593,842	270,000	863,842	16,247
Total current liabilities	<b>1,382,979</b>	317,752	1,700,731	32,692
Noncurrent liabilities				
Net other post-employment benefits obligation	1,541,261	-	1,541,261	-
Noncurrent portion of long-term debt	14,017,480	1,030,000	15,047,480	17,026
Total noncurrent liabilities	15,558,741	1,030,000	16,588,741	17,026
<b>TOTAL LIABILITIES</b>	16,941,720	1,347,752	18,289,472	49,718
<b>NET POSITION</b>				
Net investment in capital assets	11,990,696	1,668,079	13,658,775	151,155
Unrestricted	482,671	107,896	590,567	278,775
<b>TOTAL NET POSITION</b>	\$ 12,473,367	\$ 1,775,975	\$ 14,249,342	\$ 429,930

2.03

City of Fraser

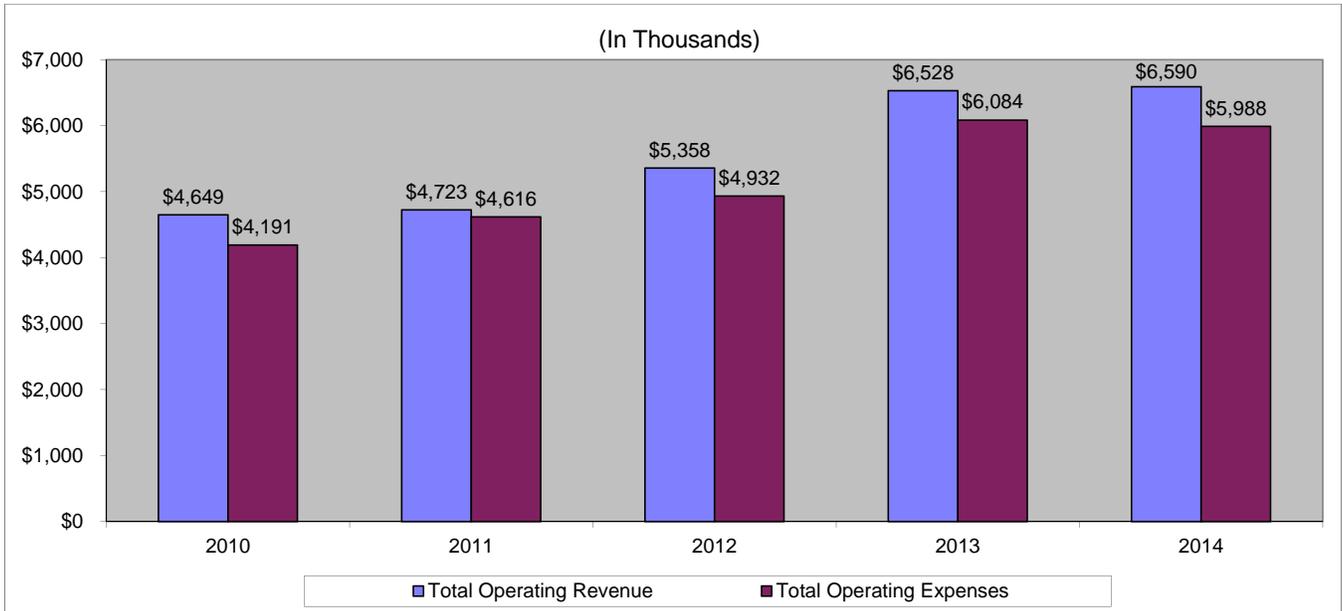
Proprietary Funds

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

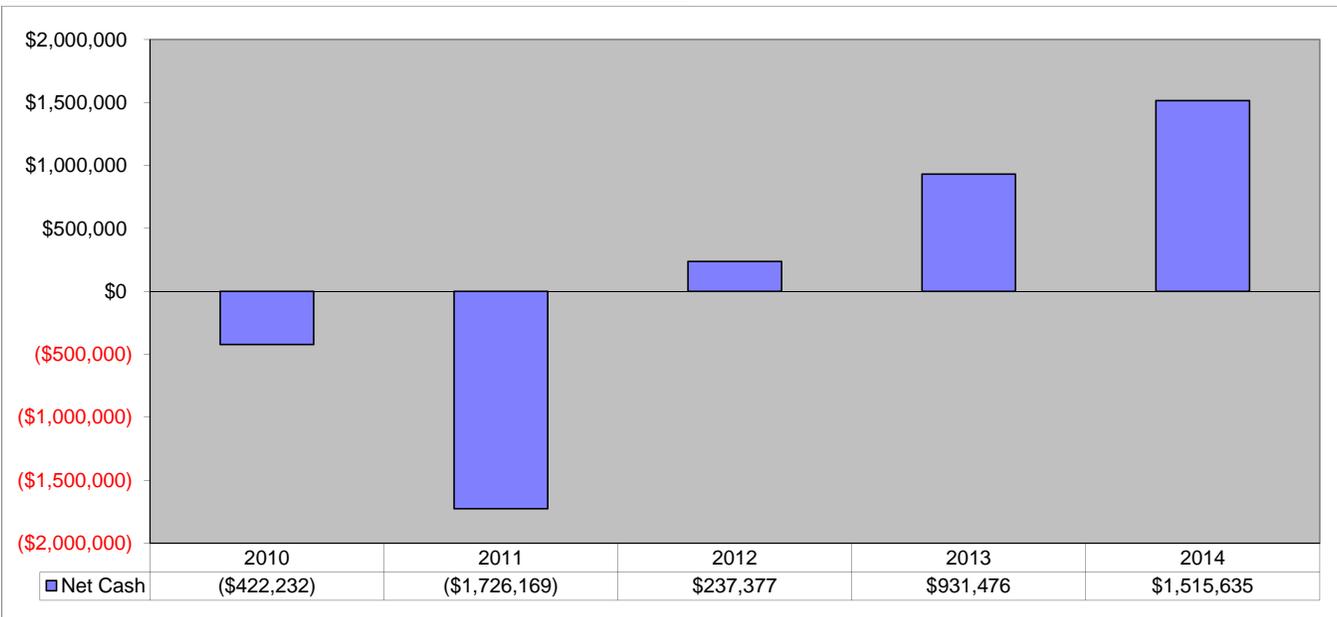
Year Ended June 30, 2014

	Business-type Activities			Governmental
	Water and Sewer Fund	Nonmajor	Total Enterprise Funds	Internal Service Fund
		Senior Citizen Housing Complex Fund		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 6,519,510	\$ 7,355	\$ 6,526,865	\$ -
Interest and penalties	61,818	1,350	63,168	-
Rentals	-	494,794	494,794	665,580
Other	9,018	-	9,018	15,945
<b>TOTAL OPERATING REVENUES</b>	<b>6,590,346</b>	503,499	7,093,845	681,525
<b>OPERATING EXPENSES</b>				
Salaries	399,522	32,278	431,800	47,548
Fringe benefits	470,112	-	470,112	26,762
Materials and supplies	133,627	18,440	152,067	-
Equipment rental	280,000	-	280,000	-
Repairs and maintenance	138,695	87,202	225,897	578,870
Cost of water	1,011,805	-	1,011,805	-
Cost of sewage disposal	2,150,618	-	2,150,618	-
Utilities	4,424	42,656	47,080	-
Postage	18,855	-	18,855	-
Miscellaneous	65,775	35,458	101,233	945
Depreciation	1,314,290	91,756	1,406,046	50,440
<b>TOTAL OPERATING EXPENSES</b>	<b>5,987,723</b>	307,790	6,295,513	704,565
<b>OPERATING INCOME (LOSS)</b>	602,623	195,709	798,332	(23,040)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Tap-in fees	11,407	-	11,407	-
Interest and other revenue	12,288	326	12,614	16,200
Interest expense	(365,904)	(20,236)	(386,140)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(342,209)</b>	<b>(19,910)</b>	<b>(362,119)</b>	<b>16,200</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	260,414	175,799	436,213	(6,840)
Transfers in	-	-	-	15,504
Transfers out	(135,700)	-	(135,700)	(17,844)
<b>CHANGE IN NET POSITION</b>	<b>124,714</b>	175,799	300,513	(9,180)
Net position, beginning of year	12,348,653	1,600,176	13,948,829	439,110
Net position, end of year	<u>\$ 12,473,367</u>	<u>\$ 1,775,975</u>	<u>\$ 14,249,342</u>	<u>\$ 429,930</u>

**Water and Sewer Fund  
Analysis of Operating Activities**



**Water and Sewer Fund  
Analysis of Cash and Cash Equivalents**



Principals

Dale J. Abraham, CPA  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, 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, 2014, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the City's internal control to be a material weakness:

**MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS**

During the audit, we generally provide assistance in identifying and calculating some of the many year-end accrual adjustments required to prepare financial statements in accordance with generally accepted accounting principles (GAAP), including the requirements of GASB Statement No. 34. Accruals represent adjustments other than cash activity that impact the accounting records (i.e., capital assets, net pension asset, accounts payable, other post-employment benefits obligation, long-term debt, etc.).

While management provided several adjusting entries after the commencement of fieldwork, material journal entries were also proposed to management during the audit for adjustments to various accounts. This issue was noted and reported in our audit comments last year. For the current audit, a total of 64 adjusting journal entries were posted to the working trial balance after the commencement of fieldwork. The latest adjusting journal entry was provided by management on December 23, 2014.

## MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

We are pleased to assist in this process as we have expertise with these types of adjustments and reporting issues and can generally assist in a very cost-efficient manner. However, we bring this issue to your attention since it meets the definition of a material weakness in your internal control over financial reporting, as management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the proper recording of journal entries. The process has improved since the prior year's audit; therefore, we recommend that the City continue to take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City's internal control to be a significant deficiency:

### **CAPITAL ASSET RECORDS**

During our audit of the capital assets, we noted that the City's capital asset listing includes duplicate entries for sidewalks and also includes infrastructure assets that were considered to be disposed of in a prior period. Management has classified these items as "retired" in the capital asset management system rather than classifying the assets as "disposed". As a result, the capital asset management system continues to calculate depreciation expense for these items. A manual adjustment is then being entered into the general ledger to reduce the depreciation expense. If these assets were disposed of properly in the system as opposed to being "retired", the depreciation would not need to be manually adjusted on an annual basis. This issue was noted and reported in our audit comments last year.

We recommend that the City's Finance Director work with the computer software support team to properly dispose of capital assets within the BS&A software.

### **COURT BOND RECONCILIATION**

During the course of the audit, we noted that the open bond listing report from the 39<sup>th</sup> District Court did not agree to the City's general ledger. The difference was \$4,822. Activity for this account was recorded every 6 months as opposed to being recorded on a monthly basis. In addition, the general ledger activity was not provided to the Deputy Court Administrator for review; therefore, she did not realize there was an unreconciled difference.

We recommend that the City's Finance Director or Deputy Finance Director record the activity for the 39<sup>th</sup> District Court bond account on a monthly basis and provide a copy of the general ledger activity for the month to the Deputy Court Administrator at the 39<sup>th</sup> District Court for her review.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance:

### **BUDGET VARIANCES**

As noted in the required supplementary information to the financial statements, various expenditures of the General Fund and total expenditures of the Local Streets Fund and the Gambling Forfeiture Fund exceeded the amounts appropriated. A similar issue was noted and reported in our audit comments last year. Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend the City monitor expenditures against adopted budgets and make appropriate budget amendments as needed in the future. We also recommend that City Council review the budget to actual statements on a monthly basis to accurately track expenditures against their approved budget.

## FUND DEFICIT

At the end of the fiscal year the City's General Obligation Debt Service Fund reported a negative fund balance signifying a fund deficit.

Michigan Public Act 275 of 1980 provides that the City shall not have deficits in fund balances of the governmental funds. The City is not in compliance with Public Act 275 of 1980. As a result the City will be required to prepare and submit a Deficit Elimination Plan to the State of Michigan (or update a previously filed plan).

We recommend the City utilize budgetary controls to alleviate the fund deficit. We also recommend the City update the Deficit Elimination Plan to the State of Michigan in a timely manner.

## UNCLAIMED PROPERTY

During the course of the audit, we noted that several of the outstanding checks listing on the bank reconciliations were old and still outstanding. Some checks were written as far back as 2008. Michigan Public Act 29 of 1995 provides that the City report and escheat unclaimed property to the State of Michigan. Michigan Department of Treasury Numbered Letter 2009-1 also gives guidance on this subject.

We recommend that outstanding checks be reviewed on an annual basis and any checks that are outstanding for more than one year appropriately be escheated to the State of Michigan unless a replacement check can be issued to the payee.

This communication is intended solely for the information and use of management, the Honorable Mayor and Members of the City Council of the City of Fraser, Michigan, others within the City, and applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 30, 2014

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**NOTE N: CONTINGENT LIABILITIES - CONTINUED**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE O: CHANGE IN ACCOUNTING PRINCIPLES**

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplementary information.

**NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the City's 2014-2015 fiscal year.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. The statement addresses an issue regarding the application of the transition provisions of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2014-2015 fiscal year.

**NOTE Q: RESTATEMENT OF BEGINNING NET POSITION**

Beginning net position of the governmental activities was adjusted from \$1,133,668 to \$833,652 to reflect a decrease in the net pension asset from the prior year's audited financial statements of \$300,016 due to an accounting error.

**NOTE R: SUBSEQUENT EVENTS**

On April 10, 2014, the City entered into an agreement to participate in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public employee retirement system, effective July 1, 2014. MERS is authorized and operated under State law, Act 135 of Public Acts of 1945, as amended. This plan replaced the City's pension trust fund and is a consolidated plan consisting of the following groups: public safety, Department of Public Works, management employees, office and clerical workers, dispatchers, and supervisors.

On May 14, 2014, the City Council voted to approve a tax increase of 0.25 mills to provide additional funds for the Department of Public Works budget for the 2014-2015 fiscal year.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED****Net Pension Liability of the City**

The components of the net pension liability of the City at June 30, 2014, were as follows:

	<u>2014</u>
CHANGES IN TOTAL PENSION LIABILITY	
Service cost	\$ 931,721
Interest	4,169,985
Benefit payments, including refunds of member contributions	<u>(2,845,047)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	2,256,659
TOTAL PENSION LIABILITY, BEGINNING	<u>53,081,473</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u><u>\$ 55,338,132</u></u>
CHANGES IN PLAN FIDUCIARY NET POSITION	
Contributions - employer	\$ 1,261,394
Contributions - member	211,899
Net investment income	2,281,019
Benefit payments, including refunds of member contributions	(2,845,047)
Administrative expenses	(49,193)
Other	<u>1,633,520</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	2,493,592
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>24,741,607</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u><u>\$ 27,235,199</u></u>
<b>CITY'S NET PENSION LIABILITY, ENDING (A)-(B)</b>	<u><u><b>\$ 28,102,933</b></u></u>
Plan fiduciary net position as a percentage of the total pension liability	49.22%
Covered-employee payroll	\$ 5,092,610
City's net pension liability as a percentage of covered-employee payroll	551.84%

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2014

**NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 5,452,197
Interest on net OPEB obligation	460,846
Adjustment to annual required contribution	<u>(1,259,137)</u>
Annual OPEB cost (expense)	4,653,906
Amounts contributed:	
Payments of current premiums	<u>(1,839,555)</u>
Increase in net OPEB obligation	2,814,351
OPEB obligation - beginning of year	<u>15,361,518</u>
<b>OPEB obligation - end of year</b>	<b><u>\$ 18,175,869</u></b>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 5,295,140	29.7%	\$ 11,584,167
2013	5,424,148	30.4%	15,361,518
2014	4,653,906	39.5%	18,175,869

The funding progress of the plan as is as follows:

	Year Ended June 30,		
	2006	2009	2012
Actuarial value of assets	\$ 340,018	\$ 677,886	\$ 416,750
Actuarial accrued liability (AAL) (entry age)	49,708,098	58,822,957	68,263,560
<b>Unfunded AAL (UAAL)</b>	49,368,080	58,145,071	<b>67,846,810</b>
Funded ratio	0.7%	1.2%	0.6%
Annual covered payroll	\$ 6,020,985	\$ 5,966,282	\$ 4,955,687
UAAL as a percentage of covered payroll	819.9%	974.6%	1369.1%

This trend information was obtained from the most recently issued actuarial reports.

Questions?

Thank you for your time.

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