

City of Fraser, Michigan

**Financial Report
with Supplemental Information
June 30, 2010**

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, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules of the General Fund, the Major Streets Fund, and the Drug Forfeiture Fund, the pension system schedule of funding progress, and the pension system schedule of employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010 on our consideration of the City of Fraser, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

December 22, 2010

City of Fraser, Michigan

Management's Discussion and Analysis

As management of the City of Fraser, Michigan (the "City"), we offer readers of the financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2010.

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.

Financial Highlights

- The assets of the City of Fraser exceeded its liabilities at the close of the recent fiscal year by \$24,086,725 (net assets). The City had a deficit of \$5,072,870 in unrestricted net assets at the end of the fiscal year.
- As of the close of the current fiscal year, the City of Fraser's governmental funds reported combined ending fund balances of \$3,868,487, a decrease of \$392,809 in comparison with the prior year.
- The City of Fraser's total debt decreased by \$1,266,334 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Fraser's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Fraser's finances, in a manner similar to a private sector business.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

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

The statement of activities presents information showing how the City's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. This includes uncollected taxes and earned but unused leave time.

The government-wide financial statements distinguish functions of the City of Fraser that are principally supported by taxes and governmental activities from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Fraser include general government, public safety, streets, library, and recreation. The business-type activities of the City of Fraser include the water and sewer system and senior citizen housing.

The government-wide financial statements include not only the City of Fraser, but also a legally separate Downtown Development Authority and Economic Development Corporation for which the City is financially accountable. Financial information for these component units are reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 11 to 13 of this report.

Fund Financial Statements

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

Governmental Funds

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

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund, Major Streets Fund, and Drug Forfeiture Fund. These funds are considered to be major. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

A budgetary comparison statement has been provided for the General Fund, Major Streets Fund, and Drug Forfeiture Fund to demonstrate compliance with the annual appropriated budgets.

Proprietary Funds

The City of Fraser maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Fraser used enterprise funds to account for its water and sewer system and its senior citizen housing. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Fraser's various functions. The City of Fraser uses an internal service fund to account for its fleet of vehicles.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement, because the resources of those funds are not available to support the City of Fraser's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Other Information

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City of Fraser's progress in funding its obligation to provide pension benefits to its employees. This information can be found on pages 56 to 58.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fraser, assets exceeded liabilities by \$24,086,725 at the close of the recent fiscal year.

By far the largest portion of the City of Fraser's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, office equipment, furniture, and other equipment), less any related debt used to acquire those assets that are still outstanding. The City of Fraser used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Fraser's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In a condensed format, the table below shows the comparison of assets (in thousands of dollars) as of June 30, 2010 to the prior year:

TABLE I (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current assets	\$ 4,814	\$ 5,084	\$ 1,644	\$ 914	\$ 6,458	\$ 5,998
Capital assets:						
Nondepreciable	5,100	5,100	8,469	1,247	13,569	6,347
Depreciable	13,162	14,430	8,844	8,960	22,006	23,390
Other noncurrent assets	<u>378</u>	<u>382</u>	<u>-</u>	<u>24</u>	<u>378</u>	<u>406</u>
Total assets	23,454	24,996	18,957	11,145	42,411	36,141
Liabilities						
Current liabilities	2,116	1,782	2,856	842	4,972	2,624
Long-term liabilities	<u>10,701</u>	<u>9,400</u>	<u>2,652</u>	<u>2,448</u>	<u>13,353</u>	<u>11,848</u>
Total liabilities	<u>12,817</u>	<u>11,182</u>	<u>5,508</u>	<u>3,290</u>	<u>18,325</u>	<u>14,472</u>
Net Assets						
Invested in capital assets -						
Net of related debt	12,720	13,362	14,850	7,780	27,570	21,142
Restricted	1,503	1,688	86	-	1,589	1,688
Unrestricted (deficit)	<u>(3,586)</u>	<u>(1,236)</u>	<u>(1,487)</u>	<u>75</u>	<u>(5,073)</u>	<u>(1,161)</u>
Total net assets	<u>\$ 10,637</u>	<u>\$ 13,814</u>	<u>\$ 13,449</u>	<u>\$ 7,855</u>	<u>\$ 24,086</u>	<u>\$ 21,669</u>

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

The City of Fraser's unrestricted net assets balance has a deficit due to the Water and Sewer Fund. Expenses for the Water and Sewer Fund continue to outpace the revenue generated. At this point, a major water main break would be devastating to the financial situation within the fund. Corrective action needs to be taken soon.

Governmental activities decreased the City of Fraser's net assets by \$3,176,248. A major contributor to the decrease relates to the recent reductions in property values within the City and a reduction in state-shared revenue. Another key component in the decline of net assets relates to the unfunded portion of retiree healthcare benefits that continues to grow. The City currently pays the retiree healthcare premiums as they come due.

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2010 and 2009:

TABLE 2 (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue						
Program revenue:						
Charges for services	\$ 3,118	\$ 2,478	\$ 5,113	\$ 4,403	\$ 8,231	\$ 6,881
Operating grants and contributions	160	871	-	-	160	871
Capital grants and contributions	60	-	5,227	63	5,287	63
General revenue:						
Property taxes	10,712	11,285	-	-	10,712	11,285
State-shared revenue	1,222	1,420	-	-	1,222	1,420
Unrestricted investment earnings	45	119	1	1	46	120
Transfers and other revenue	344	354	(149)	(153)	195	201
Total revenue	15,661	16,527	10,192	4,314	25,853	20,841
Program Expenses						
General government	4,295	3,857	-	-	4,295	3,857
Public safety	9,035	9,333	-	-	9,035	9,333
Public works	3,639	3,816	-	-	3,639	3,816
Recreation	1,235	1,366	-	-	1,235	1,366
Community and economic development	392	327	-	-	392	327
Interest on long-term debt	242	261	-	-	242	261
Water and sewer	-	-	4,204	4,555	4,204	4,555
Senior housing	-	-	394	402	394	402
Total program expenses	18,838	18,960	4,598	4,957	23,436	23,917
Change in Net Assets	\$ (3,177)	\$ (2,433)	\$ 5,594	\$ (643)	\$ 2,417	\$ (3,076)

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

Business-type activities increased the City of Fraser's net assets by \$5,595,023; however, the gravity flow sewer project primarily fueled this. Capital assets for business-type activities increased by \$7,102,977, net of depreciation, compared to the prior year.

The Senior Citizen Housing Complex continues to maintain a healthy fund balance. The facility has had several updates, and the fund is able to continue making its annual debt payments.

The opposite is true for the Water and Sewer Fund. Although the Water and Sewer Fund saw a considerable increase in net assets, the deficit for unrestricted net assets grew to \$1,554,488. Over the past year, the City has seen consumption of water drastically decline.

The City continues to grapple with the State's administrative consent order that mandates the upgrades to the sewer system. At issue is the ability of the City to spread the considerable expense of the project across the 5,300 customers within the distribution system. Currently, the City assesses a fixed charge based upon the average sewer consumption a customer has over a 12-month period.

Financial Analysis of the City of Fraser's Funds

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

Governmental Funds

As of the end of the current fiscal year, the City of Fraser's governmental funds reported combined ending fund balances of \$3,868,487, a decrease of \$392,809 from the prior year. The unreserved General Fund balance of \$2,365,157 computes to 17 percent of the 2010-2011 General Fund budget. A healthy fund balance usually is around 15 percent.

The fund balance of the City of Fraser's General Fund balance reduction during the 2009-2010 fiscal year was due to:

- Actual property tax revenue missing the original budgeted figure by \$213,050
- State-shared revenue not reaching the originally budgeted figure by \$213,584
- Expenses associated with the early retirement incentive that were not considered in the original budget

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Proprietary Funds

The City of Fraser's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to a deficit of \$1,554,448. The Senior Citizen Housing Complex ended with unrestricted net assets totaling \$67,765.

General Fund Budgetary Highlights

Differences between the original expenditure budget and the final amended expenditure budget were \$63,477, or 0.50 percent of original appropriation. The major difference occurred between the original revenue budget and the final amended revenue budget. This difference was \$541,764, or 3.71 percent of the original budget. Again, this relates to the issues surrounding reduction of property taxes and state-shared revenue.

Capital Assets and Debt Administration

At the end of fiscal year 2010, the City had \$45.3 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 \$6.1 million at June 30, 2010.

Debt of \$7.6 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 \$2.0 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 sluggish economy continues to be a prominent factor in the City of Fraser's financial condition and upcoming budgets. As property values continue to decline, the City's revenue garnered by property taxes grows smaller. The City has done a valiant effort in maintaining services with fewer resources, but a serious discussion needs to start concerning what are the community's priorities for services.

The City is currently projecting a General Fund budget deficit of around \$1.0 million for the 2011-2012 fiscal year. This deficit comes on the heels of solving a \$1.4 million General Fund budget deficit in 2010-2011. The projected deficit for 2011-2012 accounts for 10 percent of the total General Fund budget.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Besides property values, the City of Fraser is faced with a deficit within its Water and Sewer Fund. The State of Michigan will not allow the fund to maintain a negative balance. A corrective action plan will be required. The plan may include an adjustment to the rates currently assessed to the City's roughly 5,300 water customers or a decrease in services rendered by the Department of Public Works.

The news of reduction in services and possible water and sewer rate increases is not the greatest news, but the fact that the City of Fraser Council and administration has resolved past deficits should bolster your confidence.

Requests for Information

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, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash investments (Note 3)	\$ 4,201,630	\$ 107,346	\$ 4,308,976	\$ 6,711
Receivables:				
Customers	-	1,028,454	1,028,454	-
Due from other governmental units	481,480	400,453	881,933	-
Special assessments	131,817	-	131,817	-
Restricted assets (Note 8)	8,089	86,282	94,371	-
Prepaid costs and other assets	-	21,673	21,673	-
Net pension asset (Note 11)	369,202	-	369,202	-
Capital assets:				
Nondepreciable (Note 5)	5,100,842	8,469,313	13,570,155	-
Depreciable - Net (Note 5)	13,161,596	8,843,571	22,005,167	-
Total assets	23,454,656	18,957,092	42,411,748	6,711
Liabilities				
Accounts payable	348,519	2,595,821	2,944,340	6,000
Accrued and other liabilities	327,430	83,499	410,929	-
Deferred revenue	8,089	-	8,089	-
Other postemployment benefit obligations (Note 12)	3,833,807	355,217	4,189,024	-
Noncurrent liabilities (Note 7):				
Due within one year	1,431,925	176,720	1,608,645	-
Due in more than one year	6,867,414	2,296,582	9,163,996	-
Total liabilities	12,817,184	5,507,839	18,325,023	6,000
Net Assets				
Invested in capital assets - Net of related debt	12,720,289	14,849,694	27,569,983	-
Restricted for:				
Local and major streets	905,801	-	905,801	-
Drug forfeiture	500,380	-	500,380	-
Debt service	96,548	86,282	182,830	-
Capital projects	601	-	601	-
Unrestricted (deficit)	(3,586,147)	(1,486,723)	(5,072,870)	711
Total net assets	<u>\$ 10,637,472</u>	<u>\$ 13,449,253</u>	<u>\$ 24,086,725</u>	<u>\$ 711</u>

City of Fraser, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,295,221	\$ 1,482,494	\$ 68,282	\$ 59,622
Public safety	9,035,057	597,441	86,956	-
Public works	3,638,644	729,481	-	-
Community and economic development	391,550	136,448	-	-
Recreation	1,234,772	135,101	41,625	-
Interest on long-term debt	241,537	-	-	-
Total governmental activities	18,836,781	3,080,965	196,863	59,622
Business-type activities:				
Sewage disposal and water supply	4,204,058	4,658,626	-	5,227,141
Senior housing	393,693	455,189	-	-
Total business-type activities	4,597,751	5,113,815	-	5,227,141
Total primary government	\$ 23,434,532	\$ 8,194,780	\$ 196,863	\$ 5,286,763
Component units:				
Economic Development Corporation	\$ 6,000	\$ 200	\$ -	\$ -
Downtown Development Authority	1,776	1,105	-	-
Total component units	\$ 7,776	\$ 1,305	\$ -	\$ -
General revenue:				
Property taxes				
State-shared revenue				
Interest				
Franchise fees				
Total general revenue				
Transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Statement of Activities
Year Ended June 30, 2010**

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,684,823)	\$ -	\$ (2,684,823)	\$ -
(8,350,660)	-	(8,350,660)	-
(2,909,163)	-	(2,909,163)	-
(255,102)	-	(255,102)	-
(1,058,046)	-	(1,058,046)	-
(241,537)	-	(241,537)	-
(15,499,331)	-	(15,499,331)	-
-	5,681,709	5,681,709	-
-	61,496	61,496	-
-	5,743,205	5,743,205	-
(15,499,331)	5,743,205	(9,756,126)	-
-	-	-	(5,800)
-	-	-	(671)
-	-	-	(6,471)
10,712,310	-	10,712,310	-
1,222,297	-	1,222,297	-
44,905	1,106	46,011	38
194,283	-	194,283	-
12,173,795	1,106	12,174,901	38
149,288	(149,288)	-	-
(3,176,248)	5,595,023	2,418,775	(6,433)
13,813,720	7,854,230	21,667,950	7,144
\$ 10,637,472	\$ 13,449,253	\$ 24,086,725	\$ 711

City of Fraser, Michigan

Governmental Funds Balance Sheet June 30, 2010

	General Fund	Drug Forfeiture Fund	Major Streets Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 2,491,019	\$ 502,902	\$ 632,062	\$ 307,995	\$ 3,933,978
Receivables:					
Special assessments receivable	18,738	-	-	113,079	131,817
Due from other governmental units	364,714	-	81,499	35,267	481,480
Restricted assets	8,089	-	-	-	8,089
Total assets	\$ 2,882,560	\$ 502,902	\$ 713,561	\$ 456,341	\$ 4,555,364
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 264,263	\$ 92	\$ 34,686	\$ 6,300	\$ 305,341
Accrued and other liabilities	226,313	2,430	7,796	5,091	241,630
Deferred revenue (Note 4)	26,827	-	-	113,079	139,906
Total liabilities	517,403	2,522	42,482	124,470	686,877
Fund Balances -					
Unreserved - Reported in:					
General Fund	2,365,157	-	-	-	2,365,157
Special Revenue Funds	-	500,380	671,079	234,722	1,406,181
Debt Service Funds	-	-	-	96,548	96,548
Capital Projects Funds	-	-	-	601	601
Total fund balances	2,365,157	500,380	671,079	331,871	3,868,487
Total liabilities and fund balances	\$ 2,882,560	\$ 502,902	\$ 713,561	\$ 456,341	\$ 4,555,364

City of Fraser, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2010

Fund Balance - Total Governmental Funds	\$ 3,868,487
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	17,730,026
Net pension assets in governmental activities are not reported in the funds	369,202
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	131,817
Bonds payable are not due and payable in the current period and are not reported in the funds	(7,000,987)
Accrued interest is included as a liability in governmental activities	(74,717)
Compensated absences are included as a liability in governmental activities	(1,207,190)
The current cost of other postemployment benefits not due and payable in the current period is not reported in the funds	(3,833,807)
Internal Service Funds are included as part of governmental activities	<u>654,641</u>
Net Assets of Governmental Activities	<u>\$ 10,637,472</u>

City of Fraser, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2010

	General Fund	Drug Forfeiture Fund	Major Streets Fund	Other Governmental Funds	Total
Revenue					
Property taxes	\$ 10,338,311	\$ -	\$ -	\$ 380,198	\$ 10,718,509
State sources	1,208,923	-	497,599	215,324	1,921,846
Federal sources	110,385	-	-	-	110,385
District Court and Violations Bureau	924,367	-	-	-	924,367
Interest on investments	24,366	4,977	2,661	11,246	43,250
Licenses, permits, and registrations	128,248	-	-	-	128,248
Other revenue	1,187,524	181,307	-	160,152	1,528,983
Total revenue	13,922,124	186,284	500,260	766,920	15,375,588
Expenditures					
Current:					
General government	2,749,674	-	-	-	2,749,674
District Court	-	138,966	-	-	138,966
Public safety	7,630,375	-	-	-	7,630,375
Public works	1,494,273	-	474,286	589,518	2,558,077
City parks and recreation	498,979	-	-	-	498,979
Other functions	1,071,732	-	-	-	1,071,732
Capital outlay	-	26,492	177,879	13,746	218,117
Debt service	-	-	-	1,051,765	1,051,765
Total expenditures	13,445,033	165,458	652,165	1,655,029	15,917,685
Excess of Revenue Over (Under) Expenditures	477,091	20,826	(151,905)	(888,109)	(542,097)
Other Financing Sources (Uses)					
Transfers in	-	-	152,907	894,427	1,047,334
Transfers out	(858,046)	-	(40,000)	-	(898,046)
Total other financing sources (uses)	(858,046)	-	112,907	894,427	149,288
Net Change in Fund Balances	(380,955)	20,826	(38,998)	6,318	(392,809)
Fund Balances - Beginning of year	2,746,112	479,554	710,077	325,553	4,261,296
Fund Balances - End of year	<u>\$ 2,365,157</u>	<u>\$ 500,380</u>	<u>\$ 671,079</u>	<u>\$ 331,871</u>	<u>\$ 3,868,487</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (392,809)
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	138,801
Depreciation expense	(1,386,105)
Special assessment revenue is recorded in the statement of activities when the assessment is set; it is not reported in the funds until collected or collectible within 60 days of year end	(62,617)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	732,998
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	1,184
Increase in accumulated employee compensated absences is recorded when earned in the statement of activities	362
The current cost of other postemployment benefits is recorded when incurred in the statement of activities	(2,005,177)
Internal Service Funds are also included as governmental activities	(202,885)
Change in Net Assets of Governmental Activities	<u>\$ (3,176,248)</u>

City of Fraser, Michigan

Proprietary Funds Statement of Net Assets June 30, 2010

	Major Funds			Governmental Activity
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ -	\$ 107,346	\$ 107,346	\$ 267,652
Receivables - Customers	1,028,454	-	1,028,454	-
Due from other governmental units	400,453	-	400,453	-
Total current assets	1,428,907	107,346	1,536,253	267,652
Noncurrent assets:				
Restricted assets (Note 8)	86,282	-	86,282	-
Other assets	-	21,673	21,673	-
Capital assets - Net (Note 5)	13,996,261	3,316,623	17,312,884	532,412
Total noncurrent assets	14,082,543	3,338,296	17,420,839	532,412
Total assets	15,511,450	3,445,642	18,957,092	800,064
Liabilities				
Current liabilities:				
Accounts payable	2,586,464	9,357	2,595,821	43,178
Accrued and other liabilities	31,602	51,897	83,499	11,083
Current portion of provision for compensated absences (Note 7)	8,731	-	8,731	-
Current portion of long-term debt (Note 7)	12,989	155,000	167,989	13,472
Total current liabilities	2,639,786	216,254	2,856,040	67,733
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	1,381	-	1,381	-
Other postemployment benefit obligations (Note 12)	355,217	-	355,217	-
Long-term debt - Net of current portion (Note 7)	508,803	1,786,398	2,295,201	77,690
Total noncurrent liabilities	865,401	1,786,398	2,651,799	77,690
Total liabilities	3,505,187	2,002,652	5,507,839	145,423
Net Assets				
Invested in capital assets - Net of related debt	13,474,469	1,375,225	14,849,694	441,250
Restricted - Debt service	86,282	-	86,282	-
Unrestricted (deficit)	(1,554,488)	67,765	(1,486,723)	213,391
Total net assets	<u>\$ 12,006,263</u>	<u>\$ 1,442,990</u>	<u>\$ 13,449,253</u>	<u>\$ 654,641</u>

City of Fraser, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2010

	Major Funds			Governmental Activities
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Operating Revenue				
Charges for services	\$ 4,570,819	\$ -	\$ 4,570,819	\$ -
Interest and penalties	44,063	-	44,063	-
Rents	-	447,239	447,239	684,000
Other	33,664	7,950	41,614	9,619
Total operating revenue	4,648,546	455,189	5,103,735	693,619
Operating Expenses				
Salaries	507,837	27,624	535,461	101,763
Fringe benefits	383,414	-	383,414	38,979
Materials and supplies	107,067	14,407	121,474	48,401
Equipment rental	187,000	-	187,000	-
Curbside recycling	94,740	-	94,740	-
Repairs and maintenance	97,973	100,233	198,206	358,164
Cost of water	733,029	-	733,029	-
Cost of sewage disposal	1,601,715	-	1,601,715	-
Utilities	19,871	39,497	59,368	-
Postage	26,861	-	26,861	-
Miscellaneous	23,531	13,112	36,643	217,783
Depreciation	408,375	89,697	498,072	133,069
Total operating expenses	4,191,413	284,570	4,475,983	898,159
Operating Income (Loss)	457,133	170,619	627,752	(204,540)
Nonoperating Revenue (Expenses)				
Tap-in fees	10,080	-	10,080	-
Interest income	357	749	1,106	1,655
Interest expense	(12,645)	(109,123)	(121,768)	-
Income (Loss) - Before contributions	454,925	62,245	517,170	(202,885)
Capital Contributions - Grants and contributions received	5,227,141	-	5,227,141	-
Transfers Out	(149,288)	-	(149,288)	-
Change in Net Assets	5,532,778	62,245	5,595,023	(202,885)
Net Assets - Beginning of year	6,473,485	1,380,745	7,854,230	857,526
Net Assets - End of year	<u>\$ 12,006,263</u>	<u>\$ 1,442,990</u>	<u>\$ 13,449,253</u>	<u>\$ 654,641</u>

City of Fraser, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2010

	Enterprise - Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 3,987,114	\$ 446,409	\$ 4,433,523	\$ 684,000
Payments to suppliers	(1,112,205)	(155,722)	(1,267,927)	(634,462)
Payments to employees	(506,641)	(27,624)	(534,265)	(104,258)
Other receipts	33,415	7,950	41,365	9,619
Net cash provided by (used in) operating activities	2,401,683	271,013	2,672,696	(45,101)
Cash Flows from Capital and Related Financing Activities				
Receipt of capital grants	5,227,141	-	5,227,141	-
Transfers to other funds	(149,288)	-	(149,288)	-
Tap-in fee collections	10,080	-	10,080	-
Purchase of capital assets	(7,588,165)	(15,885)	(7,604,050)	(108,320)
Principal and interest paid on capital debt	(337,318)	(260,905)	(598,223)	(17,843)
Proceeds from issuance of debt	521,792	-	521,792	109,005
Net cash used in capital and related financing activities	(2,315,758)	(276,790)	(2,592,548)	(17,158)
Cash Flows from Investing Activities - Interest received on investments				
	357	749	1,106	1,655
Net Increase (Decrease) in Cash and Cash Equivalents				
	86,282	(5,028)	81,254	(60,604)
Cash and Cash Equivalents - Beginning of year				
	-	112,374	112,374	328,256
Cash and Cash Equivalents - End of year				
	<u>\$ 86,282</u>	<u>\$ 107,346</u>	<u>\$ 193,628</u>	<u>\$ 267,652</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ -	\$ 107,346	\$ 107,346	\$ 267,652
Restricted cash	86,282	-	86,282	-
Total cash and cash equivalents	<u>\$ 86,282</u>	<u>\$ 107,346</u>	<u>\$ 193,628</u>	<u>\$ 267,652</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 457,133	\$ 170,619	\$ 627,752	\$ (204,540)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	408,376	89,697	498,073	133,069
Changes in assets and liabilities:				
Receivables	(627,768)	2,525	(625,243)	-
Accounts payable	1,991,449	9,357	2,000,806	26,880
Accrued and other liabilities	172,493	(1,185)	171,308	(510)
Net cash provided by (used in) operating activities	<u>\$ 2,401,683</u>	<u>\$ 271,013</u>	<u>\$ 2,672,696</u>	<u>\$ (45,101)</u>

Noncash Investing, Capital, and Financing Activities - During the year, the Oakland-Macomb Interceptor Drainage District (OMID) had completed and contributed drainage system improvements totaling \$364,560, of which \$295,141 was funded through a principal forgiveness program. In addition, the City's portion of OMID-issued county drain bonds totaled \$366,091.

City of Fraser, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2010

	Trust Funds - Pension and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,433,062	\$ 1,663,803
Investments:		
U.S. government bonds	1,038,148	-
U.S. government securities	1,233,718	-
Equity securities	7,802,216	-
Corporate bonds	3,129,102	-
Commercial mortgage obligations	811,658	-
Municipal bonds	150,859	-
Real estate partnerships	865,591	-
Mutual funds	5,059,625	-
	21,523,979	\$ 1,663,803
Liabilities - Accrued and other liabilities	12,964	\$ 1,663,803
Net Assets - Held in trust for pension and other postemployment benefits	\$ 21,511,015	

City of Fraser, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2010

	Trust Funds - Pension and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 594,773
Net increase in fair value of investments	1,265,043
Investment-related expenses	<u>(116,228)</u>
Net investment income	1,743,588
Contributions:	
Employer	2,781,892
Employee	<u>523,596</u>
Total contributions	<u>3,305,488</u>
Total additions - Net	5,049,076
Deductions	
Benefit payments	3,881,678
Administrative expenses	<u>49,270</u>
Total deductions	<u>3,930,948</u>
Net Increase in Net Assets Held in Trust	1,118,128
Net Assets - Beginning of year	<u>20,392,887</u>
Net Assets - End of year	<u><u>\$ 21,511,015</u></u>

City of Fraser, Michigan

Component Units Statement of Net Assets June 30, 2010

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Total</u>
Assets - Cash and investments	\$ 7,560	\$ (849)	\$ 6,711
Liabilities - Accrued and other liabilities	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Net Assets - Unrestricted	<u>\$ 1,560</u>	<u>\$ (849)</u>	<u>\$ 711</u>

City of Fraser, Michigan

	<u>Expenses</u>	<u>Program Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Economic Development Corporation - Public works and streets	\$ 6,000	\$ 200	\$ -
Downtown Development Authority - Public works	1,776	1,105	-
Total component units	<u>\$ 7,776</u>	<u>\$ 1,305</u>	<u>\$ -</u>

General Revenue - Investment income

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2010**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation	Downtown Development Authority	Total
\$ (5,800)	\$ -	\$ (5,800)
<u>-</u>	<u>(671)</u>	<u>(671)</u>
(5,800)	(671)	(6,471)
<u>38</u>	<u>-</u>	<u>38</u>
(5,762)	(671)	(6,433)
<u>7,322</u>	<u>(178)</u>	<u>7,144</u>
<u>\$ 1,560</u>	<u>\$ (849)</u>	<u>\$ 711</u>

Note 1 - Nature of Business and 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's governing body. 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 - Nature of Business and 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 revenue, is 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (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 revenue 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 - Nature of Business and 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 revenue to be available if it is 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 revenue 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 revenue and associated expenditures generated through drug seizure and related drug enforcement activities.
- The Major Streets Fund (a Special Revenue Fund) accounts for the revenue 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.
- 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- 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.

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."

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

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

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net 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.

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.

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, 2010, all unrestricted governmental fund balance remained undesignated.

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.

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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The City's 2009 ad valorem tax is levied and collectible on July 1, 2009 and is recognized as revenue in the year ended June 30, 2010, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2009 taxable valuation of the City totaled approximately \$567.4 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 \$9.3 million for operating, \$339,000 for ambulance services, and approximately \$589,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

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, 2010 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 \$1,135,010 for the year ended June 30, 2010, are budgeted as transfers out rather than expenditures of the various functional departments of the City.

In addition, the City budgets transfers between funds as resources and charges to appropriations instead of other financing sources/uses. A comparison of the actual results of operations to the General Fund, Major Streets Funds, and Drug Forfeiture Fund budgets as adopted by the City Council is available at the clerk's office for inspection.

Fund Deficits - The City has an accumulated deficit of unrestricted net assets in both the Water and Sewer Fund and the Downtown Development Authority Fund.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

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

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, 2010, building department revenue and expenditures totaled approximately \$113,000 and \$305,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$192,000 for this period. Since January 1, 2000, each year's expenditures have exceeded revenue within the City's building department.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Major Streets Fund	\$ 627,986	\$ 652,165

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

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 City has currently authorized 13 depositories to maintain its deposits and investments.

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.

Note 3 - Deposits and Investments (Continued)

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, 2010, 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, 2010, the deposits in the Pension Trust Fund and Retiree Health Care Fund are in accordance with statutory authority.

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 \$2.6 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 3 - Deposits and Investments (Continued)

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 Pension Trust and Retiree Health Care Funds	How Held
United States government agency securities	\$ 1,233,718	Counterparty
United States government bonds	1,038,148	Counterparty
Municipal bonds	150,859	Counterparty
Corporate bonds	3,129,102	Counterparty
Mutual funds	5,059,625	Counterparty
Equity securities	7,802,216	Counterparty
Money market	916,412	Counterparty
Real estate partnerships	865,591	Counterparty
Commercial mortgage obligations	811,658	Counterparty
	\$ 21,007,329	
Total uninsured and unregistered		

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 Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
United States government agency securities	\$ 1,233,718	18.2 years*
United States government bonds	1,038,148	13.3 years*
Corporate bonds	3,129,102	8.8 years*
Commercial mortgage obligations	811,658	14.7 years*
Municipal bonds	150,859	20.8 years*

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 3 - Deposits and Investments (Continued)

* 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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
United States government agency securities:			
Federal Home Loan Mortgage Corporation	\$ 455,233	Not rated	Not rated
Federal National Mortgage Association	778,476	Not rated	Not rated
Corporate bonds	3,129,102	BBB-to AAA	S&P
Municipal bonds	150,859	AA	Fitch
Commercial mortgage obligations	811,658	AAA	S&P
Bank investment pool	642,248	AI/PI	S&P

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. The City is in compliance with this policy at June 30, 2010.

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, 2010, the City's pension fund maintained investments in the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association totaling approximately 2.1 percent and 3.6 percent, respectively, of the pension fund's total investments.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

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	\$ 131,817	\$ -
Other local payment received prior to meeting all eligibility requirements	-	8,089
Total	<u>\$ 131,817</u>	<u>\$ 8,089</u>

Note 5 - Capital Assets

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

	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 5,100,842	\$ -	\$ -	\$ 5,100,842
Capital assets being depreciated:				
Roads and sidewalks	73,049,486	5,675	-	73,055,161
County road improvements	449,753	-	(18,447)	431,306
Buildings and improvements	6,514,985	-	-	6,514,985
Vehicles	4,341,025	135,497	(108,066)	4,368,456
Machinery and equipment	1,291,494	106,634	(34,750)	1,363,378
Furniture and fixtures	274,291	-	-	274,291
Subtotal	85,921,034	247,806	(161,263)	86,007,577
Accumulated depreciation:				
Roads and sidewalks	65,955,312	1,002,383	-	66,957,695
Buildings and improvements	1,616,883	152,663	-	1,769,546
Vehicles	2,937,773	208,597	(107,381)	3,038,989
Machinery and equipment	790,716	114,225	(34,750)	870,191
Furniture and fixtures	190,499	19,061	-	209,560
Subtotal	71,491,183	1,496,929	(142,131)	72,845,981
Net capital assets being depreciated	14,429,851	(1,249,123)	(19,132)	13,161,596
Net capital assets	<u>\$ 19,530,693</u>	<u>\$ (1,249,123)</u>	<u>\$ (19,132)</u>	<u>\$ 18,262,438</u>

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in progress	410,197	7,222,073	-	7,632,270
Subtotal	1,247,240	7,222,073	-	8,469,313
Capital assets being depreciated:				
Water and sewer distribution systems	14,493,713	366,091	-	14,859,804
Buildings and building improvements	3,879,767	15,885	-	3,895,652
Subtotal	18,373,480	381,976	-	18,755,456
Accumulated depreciation:				
Water and sewer distribution systems	8,099,481	408,375	-	8,507,856
Buildings and building improvements	1,314,332	89,697	-	1,404,029
Subtotal	9,413,813	498,072	-	9,911,885
Net capital assets being depreciated	8,959,667	(116,096)	-	8,843,571
Net capital assets	<u>\$ 10,206,907</u>	<u>\$ 7,105,977</u>	<u>\$ -</u>	<u>\$ 17,312,884</u>

Construction in progress includes \$364,560 of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which is the City's portion of total OMID improvements in the amount of \$15,687,438. These improvements will be completed by OMID using state revolving loan funds and bonded debt. See Note 7 for additional information.

Water and sewer distribution systems include \$366,091 of drain improvements constructed by the Macomb County Waste Water District for the North Gratiot Interceptor, which is the City's portion of total improvements in the amount of \$22,340,000. See Note 6 for additional information.

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

Governmental activities:

General government	\$ 249,929
Public safety	132,815
Public works	888,240
Recreation and culture	92,876
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>133,069</u>
Total governmental activities	<u>\$ 1,496,929</u>

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 5 - Capital Assets (Continued)

Business-type activities:		
Water and Sewer		\$ 408,375
Senior Housing Center		<u>89,697</u>
Total business-type activities		<u>\$ 498,072</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 \$2,400,000.

Note 6 - Interfund Transfers

Interfund Transfers

The composition of interfund transfers out is as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred to</u>	<u>Amount</u>
Governmental Activities		
General Fund	Nonmajor governmental funds	\$ 705,139
General Fund	Major Streets Fund	152,907
Major Streets Fund	Nonmajor governmental funds	<u>40,000</u>
	Total governmental transfers out	898,046
Business-type Activities		
Water and Sewer Fund	Nonmajor governmental funds	<u>149,288</u>
	Total transfers out reported in governmental and proprietary funds	<u>\$ 1,047,334</u>

During 2010, 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 Major Streets Fund transferred funds to the Local Streets Fund for the improvement of local streets. The Water and Sewer Fund transferred funds to the Debt Service Funds for debt service.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt

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

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
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	\$ 4,425,000	\$ -	\$ 250,000	\$ 4,175,000	\$ 300,000
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	1,625,000	-	75,000	1,550,000	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	675,000	-	205,000	470,000	225,000
2003 General Obligation Capital							
Improvement Bonds:							
Amount of issue - \$510,000	3.90% -	\$65,000 -					
Maturing through 2013	4.50%	\$70,000	260,000	-	65,000	195,000	65,000
Lease purchase agreement - Aerial							
Platform Fire Truck:							
Amount of issue - \$699,980							
Maturing through 2017	4.43%	\$62,998	503,985	-	62,998	440,987	62,998
Lease purchase agreement - Dump							
Truck							
Amount of issue - \$109,005							
Maturing through 2016	4.79%	\$13,472	-	109,005	17,843	91,162	13,472
Special assessment bonds - 1996							
Special Assessment Bonds:							
Amount of issue - \$1,205,000	5.25% -	\$75,000 -					
Maturing through 2012	5.45%	\$95,000	245,000	-	75,000	170,000	75,000
Total bond obligations			7,733,985	109,005	750,841	7,092,149	816,470
Other long-term obligations -							
Compensated absences			1,217,494	-	10,304	1,207,190	615,455
Total governmental			8,951,479	109,005	761,145	8,299,339	1,431,925
activities							

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General Obligation bonds:							
1999 Building Authority Bonds:							
Amount of issue - \$3,235,000	4.15% -	\$155,000 -	\$ 2,200,000	\$ -	\$ 160,000	\$ 2,040,000	\$ 155,000
Maturing through 2019	4.80%	\$270,000					
County Drain Contract Obligations:							
2008 North Gratiot Interceptor Drainage District							
Amount of issue - \$366,091	3.50% -	\$8,574 -	-	366,091	-	366,091	8,574
Maturing through 2033	5.00%	\$20,577					
2010B OMID Drainage District							
Amount of issue - \$155,701	1.15% -	\$4,415 -	-	155,701	-	155,701	4,415
Maturing through 2030	5.90%	\$12,084					
State Revolving Fund (SRF) Limited Tax General Obligation Bonds: Series 5346-01							
Maturing through 2029	2.50%	\$337,318	337,318	-	337,318	-	-
Unamortized discount and deferred charges of defeasance			(110,090)	11,488	-	(98,602)	-
Total bond obligations			2,427,228	533,280	497,318	2,463,190	167,989
Other long-term obligations - Compensated absences							
			8,128	1,984	-	10,112	8,731
Total business-type activities			2,435,356	535,264	497,318	2,473,302	176,720
Total			\$ 11,386,835	\$ 644,269	\$ 1,258,463	\$ 10,772,641	\$ 1,608,645

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
2011	\$ 816,470	\$ 291,424	\$ 1,107,894	\$ 167,989	\$ 114,992	\$ 282,981
2012	862,116	258,352	1,120,468	218,802	107,292	326,094
2013	537,793	227,398	765,191	213,919	97,796	311,715
2014	578,502	202,946	781,448	218,438	88,206	306,644
2015	579,245	177,935	757,180	268,670	77,142	345,812
2016-2020	3,243,023	481,260	3,724,283	1,037,157	200,307	1,237,464
2021-2025	475,000	36,800	511,800	127,683	72,273	199,956
2026-2030	-	-	-	148,803	37,975	186,778
2031-2033	-	-	-	61,729	5,864	67,593
Total	\$ 7,092,149	\$ 1,676,115	\$ 8,768,264	\$ 2,463,190	\$ 801,847	\$ 3,265,037

Note 7 - Long-term Debt (Continued)

During the year, the Oakland-Macomb Interceptor Drainage District (OMID) issued \$6,700,000 of county drain bonds, of which \$155,701 is the City's share. The proceeds are being used to improve and repair the OMID Interceptor which is a multi-jurisdictional drainage system. These bonds were issued as taxable Recovery Zone Economic Development Bonds (RZEDBs). RZEDBs are eligible to recover tax credit payments from the United States Treasury equal to 45 percent of the interest payable on the bonds. The City anticipates receiving credits in the future for its proportionate share of recovered interest costs.

Also during the year, the OMID was approved for \$42,000,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$600,000 is the City's share. The SRF loans are, in part, supported by grant funding from the American Recovery and Reinvestment Act of 2009 (ARRA) and includes loan principal forgiveness which will equal 40 percent of final allowable project costs. The ARRA amounts are recognized as contributed capital when construction costs are incurred. For the year ended June 30, 2010, approximately \$12,700,000 of costs were incurred by OMID, resulting in approximately \$295,000 of contributed capital recognized as the City's share. No amounts were drawn on the SRF loan at that time.

During the year, the North Gratiot Interceptor Drainage District (NGID) allocated a percent of the Drainage District Drain Bonds Phase I, Series 2008 bonds totaling \$22,340,000 to participating communities. Debt was allocated based on a three-year average flow calculation, of which \$366,091 is the City's share.

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, 2010, \$470,000 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, 2010, 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.

Subsequent Events - Subsequent to year end, the Macomb Interceptor Drainage District (MID) issued debt in the amount of \$95,620,000, of which approximately \$3,800,000 is the City's share. The debt was issued for the purpose of acquiring the Macomb Interceptor Drain from the City of Detroit.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

Additionally, on August 25, 2010, the City issued general obligation unlimited tax bonds in the amount of \$3,960,000 to refund a portion of the City's outstanding 1998 General Obligation Unlimited Tax City Hall Bonds.

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund and the Building Authority Capital Projects Fund have been restricted for operations and maintenance, replacement, and debt service as well as unspent bond proceeds. Additionally, specific assets of the Water and Sewer Fund are restricted as the result of external governments issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Following is the detail of restricted assets at June 30, 2010:

	<u>Water and Sewer Fund</u>
Due from Oakland County*	<u>\$ 86,282</u>

* This amount is held by Oakland County in a construction fund maintained on behalf of the City for improvements to the Oakland-Macomb Interceptor Drainage District.

Note 9 - Risk Management

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

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

Note 10 - 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 has 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 spent entirely 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 2011. This project will represent the final component for the City to be in compliance with the administrative consent order. The City has incurred costs of approximately \$10.6 million through June 30, 2010 and estimates it will incur additional costs of approximately \$2.4 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 11 - Defined Benefit Pension Plan

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

Public Safety - The plan covers all full-time public safety employees who are members of POAM or POLC. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2009, the date of the most recent actuarial valuation, public safety membership consisted of 39 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 43 current active employees.

Note 11 - Defined Benefit Pension Plan (Continued)

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, 2009, the date of the most recent actuarial valuation, public works membership consisted of seven retirees currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 15 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, 2009, 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, 2009, 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, 2009, 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.

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, 2009, the date of the most recent actuarial valuation, supervisors' membership consisted of 12 retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and five 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.

Note 11 - Defined Benefit Pension Plan (Continued)

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	3.37 percent to 4.57 percent
Department of Public Works	4.00 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 3.37 percent and 3 percent contribution, respectively.

Annual Pension Costs

For the year ended June 30, 2010, the City's annual pension cost and net pension obligation are as follows:

Annual Pension Cost and Net Pension Obligation

	<u>Public Safety</u>	<u>Public Works</u>	<u>Management</u>	<u>Office and Clerical</u>	<u>Dispatchers</u>	<u>Supervisors</u>	<u>Total</u>
Annual required contribution	\$ 1,103,619	\$ 118,396	\$ 173,947	\$ 66,524	\$ 32,600	\$ 103,623	\$ 1,598,709
Interest on net pension (asset) obligation	(22,355)	2,233	(5,094)	(3,009)	(1,097)	(2,300)	(31,622)
Adjustment to annual required contribution	<u>25,043</u>	<u>(2,502)</u>	<u>5,706</u>	<u>3,371</u>	<u>1,229</u>	<u>2,576</u>	<u>35,423</u>
Annual pension cost	1,106,307	118,127	174,559	66,886	32,732	103,899	1,602,510
Contributions made	<u>(1,103,620)</u>	<u>(118,395)</u>	<u>(173,950)</u>	<u>(66,524)</u>	<u>(32,600)</u>	<u>(103,623)</u>	<u>(1,598,712)</u>
Change in net pension (asset) obligation	2,687	(268)	609	362	132	276	3,798
Net pension asset obligation - Beginning 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>
Net pension (asset) obligation - End of year	<u>\$ (278,481)</u>	<u>\$ 26,924</u>	<u>\$ (43,730)</u>	<u>\$ (32,592)</u>	<u>\$ (13,332)</u>	<u>\$ (27,991)</u>	<u>\$ (369,202)</u>

Note 11 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information of Annual Pension Cost

Year Ended	Fiscal Year Ended June 30		
	Annual Pension Costs	Percentage Contributed	Net Pension (Asset) Obligation
<u>Public Safety</u>			
Year ended June 30:			
2008	\$ 1,162,220	100 %	\$ (286,273)
2009	1,125,067	100 %	(281,169)
2010	1,103,620	100 %	(278,481)
<u>Management Employees</u>			
Year ended June 30:			
2008	100,093	100 %	(45,505)
2009	134,316	100 %	(44,339)
2010	173,950	100 %	(43,730)
<u>Department of Public Works Employees</u>			
Year ended June 30:			
2008	145,359	109 %	27,914
2009	124,739	100 %	27,192
2010	118,395	100 %	26,924
<u>Office and Clerical Workers</u>			
Year ended June 30:			
2008	84,730	101 %	(37,610)
2009	63,555	94 %	(32,954)
2010	66,524	100 %	(32,592)
<u>Dispatchers</u>			
Year ended June 30:			
2008	33,911	100 %	(13,714)
2009	31,212	100 %	13,464
2010	32,600	100 %	(13,332)
<u>Supervisors</u>			
Year ended June 30:			
2008	185,487	101 %	(28,746)
2009	160,807	100 %	(28,267)
2010	103,623	100 %	(27,991)

Note 11 - Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 59.93 percent funded. The actuarial accrued liability for benefits was \$42.853 million, and the actuarial value of assets was \$25.681 million, resulting in an unfunded actuarial accrued liability of \$17.172 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5.966 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 288 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.

Actuarial Methods and Assumptions

The annual required contribution was determined as part of an actuarial valuation at June 30, 2008 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, 2010 was 29 years.

Note 12 - 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, 86 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 12 - Postemployment Benefits (Continued)

For the year ended June 30, 2010, 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)	\$ 3,541,096
Interest on the prior year's net OPEB obligation	<u>100,474</u>
Annual OPEB cost	3,641,570
Amounts contributed - Payments of current premiums	<u>(1,462,030)</u>
Increase in net OPEB obligation	2,179,540
OPEB obligation - Beginning of year	<u>2,009,484</u>
OPEB obligation - End of year	<u>\$ 4,189,024</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	\$ 3,641,570
Percentage contributed	40 %
Net OPEB obligation	\$ 4,189,024

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 12 - 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, 2010

Note 13 - 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
Statement of Net Assets							
Cash and investments	\$ 12,567,022	\$ 1,419,047	\$ 2,822,535	\$ 1,649,225	\$ 559,560	\$ 1,989,940	\$ 516,650
Liabilities	-	-	-	-	-	-	(12,964)
Total net assets	<u>\$ 12,567,022</u>	<u>\$ 1,419,047</u>	<u>\$ 2,822,535</u>	<u>\$ 1,649,225</u>	<u>\$ 559,560</u>	<u>\$ 1,989,940</u>	<u>\$ 503,686</u>
Statement of Changes in Net Assets							
Investment income	\$ 1,056,084	\$ 120,538	\$ 235,225	\$ 132,913	\$ 41,085	\$ 154,073	\$ 3,670
Contributions	1,251,739	259,736	153,183	95,947	45,053	316,650	1,183,180
Benefit payments	(1,593,480)	(367,696)	(198,369)	(81,114)	-	(279,969)	(1,361,050)
Other decreases	(30,583)	(3,234)	(6,285)	(3,613)	(1,171)	(4,384)	-
Changes in net assets	<u>\$ 683,760</u>	<u>\$ 9,344</u>	<u>\$ 183,754</u>	<u>\$ 144,133</u>	<u>\$ 84,967</u>	<u>\$ 186,370</u>	<u>\$ (174,200)</u>

Note 14 - Upcoming Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement Statement No. 54 beginning with the fiscal year ending 2011.

Required Supplemental Information

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 10,551,361	\$ 10,432,744	\$ 10,338,311	\$ (94,433)
State sources	1,422,507	1,236,000	1,208,923	(27,077)
Federal sources	66,000	96,304	110,385	14,081
District Court and Violations Bureau	1,110,430	953,646	924,367	(29,279)
Interest income	213,546	61,274	24,366	(36,908)
Licenses, permits, and registrations	149,007	141,328	128,248	(13,080)
Other revenue:				
Recreation department	75,698	87,500	92,788	5,288
Library revenue	12,500	12,500	12,950	450
Other	996,495	1,034,484	1,081,786	47,302
Total revenue	14,597,544	14,055,780	13,922,124	(133,656)
Expenditures				
General government:				
City Council	95,420	84,620	89,100	(4,480)
City administration	389,561	449,276	409,731	39,545
City clerk	186,994	201,240	195,500	5,740
District Court	846,417	838,417	819,994	18,423
Finance	337,209	368,702	358,973	9,729
Assessor	119,640	119,640	119,970	(330)
Legal	130,000	145,000	166,139	(21,139)
Buildings and grounds	364,822	367,286	363,265	4,021
Total general government	2,470,063	2,574,181	2,522,672	51,509
Public safety	7,099,820	7,099,820	7,017,470	82,350
Public works	1,162,046	1,231,401	1,289,972	(58,571)
Building inspection	271,194	323,202	304,865	18,337
City parks and recreation	432,179	421,891	408,177	13,714
Library	390,972	460,557	444,248	16,309
Planning Committee	48,700	41,700	33,503	8,197
Historical Commission	3,000	3,000	310	2,690
Insurance	182,475	182,475	174,434	8,041
Other	534,755	193,500	114,372	79,128
Total expenditures	12,595,204	12,531,727	12,310,023	221,704
Excess of Revenue Over Expenditures	2,002,340	1,524,053	1,612,101	88,048
Other Financing Uses - Transfers out	(1,995,217)	(1,762,944)	(1,993,056)	(230,112)
Net Change in Fund Balance	7,123	(238,891)	(380,955)	(142,064)
Fund Balance - Beginning of year	2,746,112	2,746,112	2,746,112	-
Fund Balance - End of year	<u>\$ 2,753,235</u>	<u>\$ 2,507,221</u>	<u>\$ 2,365,157</u>	<u>\$ (142,064)</u>

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Drug Forfeiture Fund Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Interest income	\$ 10,000	\$ 10,000	\$ 4,977	\$ (5,023)
Other	179,500	179,500	181,307	1,807
Total revenue	189,500	189,500	186,284	(3,216)
Expenditures				
Other functions:				
Materials and supplies	102,700	102,700	118,615	(15,915)
Repairs and maintenance	7,000	7,000	991	6,009
Professional services	25,000	25,000	19,360	5,640
Total other functions	134,700	134,700	138,966	(4,266)
Capital outlay	55,000	55,000	26,492	28,508
Total expenditures	189,700	189,700	165,458	24,242
Net Change in Fund Balance	(200)	(200)	20,826	21,026
Fund Balance - Beginning of year	479,554	479,554	479,554	-
Fund Balance - End of year	<u>\$ 479,354</u>	<u>\$ 479,354</u>	<u>\$ 500,380</u>	<u>\$ 21,026</u>

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 522,000	\$ 522,000	\$ 497,599	\$ (24,401)
Interest income	21,000	1,000	2,661	1,661
Total revenue	543,000	523,000	500,260	(22,740)
Expenditures				
Public works:				
Salaries and fringe benefits	275,510	280,560	297,239	(16,679)
Materials and supplies	35,000	35,000	33,512	1,488
Repairs and maintenance	35,744	45,000	44,950	50
Equipment rental	71,000	71,000	71,000	-
Other	33,914	18,914	27,585	(8,671)
Total public works	451,168	450,474	474,286	(23,812)
Capital outlay	196,818	177,512	177,879	(367)
Total expenditures	647,986	627,986	652,165	(24,179)
Excess of Expenditures Over Revenue	(104,986)	(104,986)	(151,905)	(46,919)
Other Financing Sources (Uses)				
Transfers in	144,986	144,986	152,907	7,921
Transfers out	(40,000)	(40,000)	(40,000)	-
Net Change in Fund Balance	-	-	(38,998)	(38,998)
Fund Balance - Beginning of year	710,077	710,077	710,077	-
Fund Balance - End of year	<u>\$ 710,077</u>	<u>\$ 710,077</u>	<u>\$ 671,079</u>	<u>\$ (38,998)</u>

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule Year Ended June 30, 2010

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
Public Safety						
6/30/04	\$ 12,747,123	\$ 21,145,951	\$ 8,398,828	60.3	\$ 3,500,286	239.9
6/30/05	12,455,054	22,417,422	9,962,368	55.6	3,660,309	272.2
6/30/06	13,482,313	23,797,270	10,314,957	56.7	3,611,462	285.6
6/30/07	14,644,683	24,377,221	9,732,538	60.1	3,528,233	275.8
6/30/08	15,478,663	25,904,357	10,425,694	59.8	3,925,628	265.6
6/30/09	15,466,525	27,004,150	11,537,625	57.3	3,668,066	314.5
Management Employees						
6/30/04	2,103,563	3,790,858	1,687,295	55.5	467,912	360.6
6/30/05	2,027,983	4,052,211	2,024,228	50.0	460,382	439.7
6/30/06	2,133,994	4,151,333	2,017,339	51.4	480,444	419.9
6/30/07	2,208,367	4,333,245	2,124,878	51.0	276,422	768.7
6/30/08	2,084,926	4,339,356	2,254,430	48.0	228,112	988.3
6/30/09	1,892,803	4,376,686	2,483,883	43.2	233,684	1,062.9
Department of Public Works						
6/30/04	2,490,777	3,006,530	515,753	82.8	805,720	64.0
6/30/05	2,536,999	3,469,042	932,043	73.1	764,067	122.0
6/30/06	2,804,035	3,419,046	615,011	82.0	796,840	77.2
6/30/07	3,137,677	3,604,917	467,240	87.0	870,724	53.7
6/30/08	3,388,205	3,846,464	458,259	88.1	908,883	50.4
6/30/09	3,424,034	4,276,213	852,179	80.1	897,661	94.9
Office and Clerical Workers						
6/30/04	1,378,954	2,048,400	669,446	67.3	653,358	102.5
6/30/05	1,413,472	1,922,183	508,711	73.5	531,787	95.7
6/30/06	1,567,939	2,018,288	450,349	77.7	529,193	85.1
6/30/07	1,759,717	1,905,800	146,083	92.3	554,517	26.3
6/30/08	1,883,425	2,025,467	142,042	93.0	567,235	25.0
6/30/09	1,943,306	2,166,044	222,738	89.7	587,216	37.9
Dispatchers						
6/30/04	269,651	441,556	171,905	61.1	245,358	70.1
6/30/05	312,240	487,720	175,480	64.0	221,085	79.4
6/30/06	387,630	481,068	93,438	80.6	200,166	46.7
6/30/07	479,919	535,964	56,045	89.5	233,032	24.1
6/30/08	549,483	614,450	64,967	89.4	255,538	25.4
6/30/09	603,876	670,189	66,313	90.1	255,621	25.9
Supervisors						
6/30/04	1,908,654	3,000,245	1,091,591	63.6	554,253	196.9
6/30/05	1,919,381	3,279,431	1,360,050	58.5	347,085	391.8
6/30/06	2,028,932	3,558,611	1,529,679	57.0	402,880	379.7
6/30/07	2,216,284	3,996,510	1,780,226	55.5	532,480	334.3
6/30/08	2,353,893	4,084,140	1,730,247	57.6	485,350	356.5
6/30/09	2,350,049	4,359,695	2,009,646	53.9	324,034	620.2

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule (Continued) Year Ended June 30, 2010

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
<u>Public Safety</u>		
6/30/05	\$ 792,090	98.0
6/30/06	1,003,146	96.0
6/30/07	1,118,438	101.0
6/30/08	1,162,219	100.0
6/30/09	1,125,067	100.0
6/30/10	1,103,620	100.0
<u>Management Employees</u>		
6/30/05	161,292	87.0
6/30/06	164,989	100.0
6/30/07	166,634	112.0
6/30/08	100,092	100.0
6/30/09	134,416	100.0
6/30/10	173,950	100.0
<u>Department of Public Works</u>		
6/30/05	104,969	94.0
6/30/06	115,276	96.0
6/30/07	161,388	93.0
6/30/08	133,969	109.0
6/30/09	124,739	109.0
6/30/10	118,395	100.0
<u>Office and Clerical Workers</u>		
6/30/05	79,398	96.0
6/30/06	83,637	96.0
6/30/07	94,783	99.0
6/30/08	84,251	101.0
6/30/09	63,555	101.0
6/30/10	66,524	100.0
<u>Dispatchers</u>		
6/30/05	28,340	99.0
6/30/06	31,619	96.0
6/30/07	39,210	100.0
6/30/08	33,910	100.0
6/30/09	31,212	100.0
6/30/10	32,600	100.0
<u>Supervisors</u>		
6/30/05	95,058	95.0
6/30/06	102,541	96.0
6/30/07	175,504	89.0
6/30/08	182,750	101.0
6/30/09	160,807	101.0
6/30/10	103,623	100.0

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule (Continued) Year Ended June 30, 2010

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2009, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of pay, closed, 30-year period
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4% - 5%
Payroll growth	5%
Inflation	None

Other Supplemental Information

City of Fraser, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2010

	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds			Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
	Local Streets	General Obligation	Motor Vehicle Highway	Special Assessment	Special Assessments	
Assets						
Cash and investments	\$ 210,793	\$ 9,660	\$ -	\$ 86,941	\$ 601	\$ 307,995
Due from other governmental units	35,267	-	-	113,079	-	148,346
Total assets	<u>\$ 246,060</u>	<u>\$ 9,660</u>	<u>\$ -</u>	<u>\$ 200,020</u>	<u>\$ 601</u>	<u>\$ 456,341</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 6,247	\$ 53	\$ -	\$ -	\$ -	\$ 6,300
Accrued and other liabilities	5,091	-	-	-	-	5,091
Deferred revenue	-	-	-	113,079	-	113,079
Total liabilities	11,338	53	-	113,079	-	124,470
Fund Balances - Reserved	<u>234,722</u>	<u>9,607</u>	<u>-</u>	<u>86,941</u>	<u>601</u>	<u>331,871</u>
Total liabilities and fund balances	<u>\$ 246,060</u>	<u>\$ 9,660</u>	<u>\$ -</u>	<u>\$ 200,020</u>	<u>\$ 601</u>	<u>\$ 456,341</u>

City of Fraser, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2010

	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds			Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
	Local Streets	General Obligation	Motor Vehicle Highway	Special Assessment	Special Assessments	
Revenue						
Property taxes	\$ -	\$ 380,198	\$ -	\$ -	\$ -	\$ 380,198
State sources	215,324	-	-	-	-	215,324
Interest on investments	15	142	-	11,086	3	11,246
Other revenue	16,407	-	84,123	59,622	-	160,152
Total revenue	231,746	380,340	84,123	70,708	3	766,920
Expenditures						
Current - Public works	589,518	-	-	-	-	589,518
Capital outlay	13,746	-	-	-	-	13,746
Debt service	-	881,133	84,123	86,509	-	1,051,765
Total expenditures	603,264	881,133	84,123	86,509	-	1,655,029
Excess of Revenue Over (Under) Expenditures	(371,518)	(500,793)	-	(15,801)	3	(888,109)
Other Financing Sources - Transfers in	505,907	388,520	-	-	-	894,427
Change in Fund Balances	134,389	(112,273)	-	(15,801)	3	6,318
Fund Balances - Beginning of year	100,333	121,880	-	102,742	598	325,553
Fund Balances - End of year	<u>\$ 234,722</u>	<u>\$ 9,607</u>	<u>\$ -</u>	<u>\$ 86,941</u>	<u>\$ 601</u>	<u>\$ 331,871</u>

City of Fraser, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund Local Streets Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual
Revenue			
Licenses and permits	\$ 231,000	\$ 231,000	\$ 215,324
Interest income	502	502	15
Other revenue	10,000	14,500	16,407
Total revenue	241,502	246,002	231,746
Expenditures			
Current - Public works:			
Salaries and fringe benefits	314,850	314,850	301,772
Material and supplies	74,487	71,566	50,648
Repairs and maintenance	57,579	65,000	57,812
Equipment rental	177,000	177,000	177,000
Other	1,858	1,858	2,286
Capital outlay	90,692	90,692	13,746
Total expenditures	716,466	720,966	603,264
Excess of Expenditures Over Revenue	(474,964)	(474,964)	(371,518)
Other Financing Sources - Transfers in	474,964	474,964	505,907
Net Change in Fund Balance	-	-	134,389
Fund Balance - Beginning of year	100,333	100,333	100,333
Fund Balance - End of year	<u>\$ 100,333</u>	<u>\$ 100,333</u>	<u>\$ 234,722</u>

City of Fraser, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2010

	Pension Trust	Retiree Health Care Trust	Pension and Other Employee Benefit Trust Fund Totals
Assets - Cash and investments	\$ 21,007,329	\$ 516,650	\$ 21,523,979
Liabilities - Accrued and other liabilities	-	12,964	12,964
Net Assets - Held in trust for pension and other postemployment benefits	\$ 21,007,329	\$ 503,686	\$ 21,511,015

City of Fraser, Michigan

	Public Safety	Management Employees	Department of Public Works	Office and Clerical Workers
Additions				
Investment income:				
Interest and dividends	\$ 355,187	\$ 40,918	\$ 79,208	\$ 45,623
Net increase in fair value of investments	770,693	87,587	171,598	96,286
Less investment expenses	<u>(69,796)</u>	<u>(7,967)</u>	<u>(15,581)</u>	<u>(8,996)</u>
Net investment income	1,056,084	120,538	235,225	132,913
Contributions:				
City	1,103,620	173,950	118,395	66,524
Employee	<u>148,119</u>	<u>85,786</u>	<u>34,788</u>	<u>29,423</u>
Total contributions	<u>1,251,739</u>	<u>259,736</u>	<u>153,183</u>	<u>95,947</u>
Total additions - Net	2,307,823	380,274	388,408	228,860
Deductions				
Benefit payments	1,593,480	367,696	198,369	81,114
Administrative expenses	<u>30,583</u>	<u>3,234</u>	<u>6,285</u>	<u>3,613</u>
Total deductions	<u>1,624,063</u>	<u>370,930</u>	<u>204,654</u>	<u>84,727</u>
Net Increase (Decrease) in Net Assets	683,760	9,344	183,754	144,133
Net Assets Held in Trust for Pension and Other Benefits - Beginning of year	<u>11,883,262</u>	<u>1,409,703</u>	<u>2,638,781</u>	<u>1,505,092</u>
Net Assets Held in Trust for Pension and Other Benefits - End of year	<u>\$ 12,567,022</u>	<u>\$ 1,419,047</u>	<u>\$ 2,822,535</u>	<u>\$ 1,649,225</u>

Other Supplemental Information
Combining Statement of Changes in Net Assets by Retiree Group
Trust Funds
Year Ended June 30, 2010

Dispatchers	Supervisors	Total Pension Trust Fund	Retiree Health Care Trust	Total Fund Total
\$ 14,860	\$ 55,307	\$ 591,103	\$ 3,670	\$ 594,773
29,171	109,708	1,265,043	-	1,265,043
(2,946)	(10,942)	(116,228)	-	(116,228)
41,085	154,073	1,739,918	3,670	1,743,588
32,600	103,623	1,598,712	1,183,180	2,781,892
12,453	213,027	523,596	-	523,596
45,053	316,650	2,122,308	1,183,180	3,305,488
86,138	470,723	3,862,226	1,186,850	5,049,076
-	279,969	2,520,628	1,361,050	3,881,678
1,171	4,384	49,270	-	49,270
1,171	284,353	2,569,898	1,361,050	3,930,948
84,967	186,370	1,292,328	(174,200)	1,118,128
474,593	1,803,570	19,715,001	677,886	20,392,887
\$ 559,560	\$ 1,989,940	\$ 21,007,329	\$ 503,686	\$ 21,511,015

City of Fraser, Michigan

	<u>Public Safety</u>	<u>Management Employees</u>	<u>Department of Public Works</u>	<u>Office and Clerical Workers</u>
Assets - Cash and investments	<u>\$ 12,567,022</u>	<u>\$ 1,419,047</u>	<u>\$ 2,822,535</u>	<u>\$ 1,649,225</u>
Net Assets - Held in trust for pension benefits	<u>\$ 12,567,022</u>	<u>\$ 1,419,047</u>	<u>\$ 2,822,535</u>	<u>\$ 1,649,225</u>

Other Supplemental Information
Combining Statement of Net Assets by Retiree Group
Pension Trust Fund
Year Ended June 30, 2010

<u>Dispatchers</u>	<u>Supervisors</u>	<u>Total Pension Trust Fund</u>
<u>\$ 559,560</u>	<u>\$ 1,989,940</u>	<u>\$ 21,007,329</u>
<u>\$ 559,560</u>	<u>\$ 1,989,940</u>	<u>\$ 21,007,329</u>

City of Fraser, Michigan

**Federal Awards
Supplemental Information
June 30, 2010**

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 financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2010, which collectively comprise the City of Fraser, Michigan's basic financial statements, and have issued our report thereon dated December 22, 2010. These basic financial statements are the responsibility of the City of Fraser, Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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.

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 schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule 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

December 22, 2010

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2010, which collectively comprise the City of Fraser, Michigan's basic financial statements, and have issued our report thereon dated December 22, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fraser, Michigan's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. The findings we consider to be material weaknesses are 2010-A, 2010-B, and 2010-C.

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

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 deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. The finding we consider to be a significant deficiency is 2010-D.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fraser, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Fraser, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Fraser, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 22, 2010

Report on Compliance with Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Fraser, Michigan (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The major federal program of the City of Fraser, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Fraser, Michigan's management. Our responsibility is to express an opinion on the City of Fraser, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fraser, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fraser, Michigan's compliance with those requirements.

In our opinion, the City of Fraser, Michigan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2010-E.

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

Internal Control Over Compliance

The management of the City of Fraser, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fraser, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2010-E to be a material weakness.

The City of Fraser, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Fraser, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 22, 2010

City of Fraser, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Macomb County, Michigan - Community Development Block Grant:				
Program year 2008	14.218	B-08-UC-26-0005	\$ 5,282	\$ 5,282
Program year 2009	14.218	B-09-UC-26-0005	63,000	<u>63,000</u>
Total Community Development Block Grant				68,282
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - ARRA - Capitalization Grants for Clean Water State Revolving Funds				
	66.458		4,932,000	4,932,000
U.S. Department of Justice - Bureau of Justice Assistance - Passed through Macomb County:				
Community-oriented Policing Service	16.710		29,815	14,522
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.803		14,000	<u>14,000</u>
Total Bureau of Justice Assistance				28,522
U.S. Department of Transportation - National Highway Traffic Safety Administration - Passed through State of Michigan - Youth Alcohol Enforcement				
	16.727		60,132	<u>13,581</u>
Total federal awards				<u>\$ 5,042,385</u>

City of Fraser, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2010

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Fraser, Michigan under programs of the federal government for the year ended June 30, 2010. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the City of Fraser, Michigan's financial statements.

Because the Schedule presents only a selected portion of the operations of the City of Fraser, Michigan, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of the City of Fraser, Michigan. Pass-through entity identifying numbers are presented where available.

City of Fraser, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

City of Fraser, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Section II - Financial Statement Audit Findings

Reference Number	Findings
2010-A	<p>Finding Type - Material weakness</p> <p>Criteria - Reconciliation of subsidiary ledgers to general ledger account balances is a key element of internal control over financial reporting.</p> <p>Condition - The City's cash accounts and retirement system accounts were not reconciled to supporting records in a timely manner. In addition, during our review of the City's bank reconciliations, we noted amounts listed as outstanding items that were actually transactions recorded incorrectly in the City's accounting records. In our testing of customer receivables and accounts payable, we noted that the subsidiary ledger did not agree to the amount reported in the general ledger.</p> <p>Cause - The City did not implement its required procedure to reconcile the subsidiary ledger to the general ledger on a periodic basis.</p> <p>Effect - The City's cash accounts were misstated by an amount that was more than inconsequential at June 30, 2010. The City's accounts payable were understated by an amount that was more than inconsequential at June 30, 2010. The City's customer receivables and retirement system accounts were misstated by amounts that were inconsequential at June 30, 2010.</p> <p>Recommendation - We recommend that the City implement a required review by a responsible official to ensure that subsidiary ledgers are reconciled to the general ledger on a periodic basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will implement internal controls to ensure reconciliations are performed for critical account balances on a periodic basis and adjustments are made to the general ledger in a timely manner.</p>

City of Fraser, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2010-B	<p>Finding Type - Material weakness</p> <p>Criteria - Expenditures should be recorded within the period in which they were incurred.</p> <p>Condition - The City had several disbursements that occurred after year end relating to 2010 expenditures that were not accrued for as of June 30, 2010.</p> <p>Cause - The City did not implement its required procedure to review expenditures incurred prior to year end to ensure they are recorded in the proper period.</p> <p>Effect - Both the City's accounts payable and expenditures were understated by an amount that was more than inconsequential at June 30, 2010.</p> <p>Recommendation - We suggest 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.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review expenditures incurred prior to year end to ensure they are properly recorded in the appropriate period.</p>

City of Fraser, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2010-C	<p>Finding Type - Material weakness</p> <p>Criteria - Revenue from federal grants should be recorded within the period it is earned.</p> <p>Condition - The City recorded funds received as part of the American Recovery and Reinvestment Act as bonds payable rather than as federal grant revenue.</p> <p>Cause - The City did not implement its required procedure to review grant proceeds to ensure they are properly classified as revenue or loans.</p> <p>Effect - The City's federal grant revenue was understated by an amount that was more than inconsequential at June 30, 2010.</p> <p>Recommendation - We recommend a thorough review be performed periodically to ensure federal funds received are recorded appropriately.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review grant proceeds obtained to ensure they are properly classified as either grant revenue or loans.</p>

City of Fraser, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2010-D	<p>Finding Type - Significant deficiency</p> <p>Criteria - Accrual adjustments should be recorded at year end.</p> <p>Condition - The City did not record proper accrual adjustments for capital assets, net pension assets, and other postemployment benefits. The City did provide the required information to identify entries necessary to post the accruals not originally posted.</p> <p>Cause - The City did not implement its required procedure to ensure all accruals were recorded at June 30, 2010.</p> <p>Effect - The City did not have accruals for capital assets, net pension assets, and other postemployment benefits properly recorded at June 30, 2010. The effect on income was inconsequential.</p> <p>Recommendation - We recommend a review of all accrual adjustments to be completed at year end.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will review all accrual adjustments to ensure they are completed at year end.</p>

City of Fraser, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2010

Section III - Federal Program Audit Findings

Reference Number	Findings
2010-E	<p>Program Name - CFDA #66.458 - U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality; ARRA - Capitalization Grants for Clean Water State Revolving Funds</p> <p>Finding Type - Material weakness/material noncompliance</p> <p>Criteria - The reimbursement of funds as required by 40 CFR 35.3560 and 40 CFR 35.3565 must be submitted after payment has been made to vendors.</p> <p>Condition - Of the 14 invoices selected for testing, six had invoice dates that were either subsequent to the draw date or within one week of the draw date. Of these six invoices, it was determined that three of them were paid after reimbursement was received.</p> <p>Questioned Costs – None - The costs submitted for reimbursement appear to be eligible costs under the terms of the grant.</p> <p>Context - The error was clerical in nature. The reimbursement amounts were proper, but the request was made prior to actual payment.</p> <p>Cause and Effect - Although a process is in place to identify costs associated with the grant, a process has not been perfected to enable proper reimbursement within the grant guidelines. Although the reimbursements were made at the proper amount, they were not completed prior to payment of invoices.</p> <p>Recommendation - The City should identify a process to ensure that all reimbursement requests are made subsequent to payment of invoices.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will ensure that all payments to vendors related to reimbursement grant are made prior to when reimbursement requests are made.</p>

City of Fraser, Michigan

Report to the City Council

June 30, 2010

December 22, 2010

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, 2010 and have issued our report thereon dated December 22, 2010. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 115

Section II - Communications Required Under SAS 114

Section III - Legislative and Informational Items

Section I includes any deficiencies we observed in the City's accounting principles or internal controls that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal controls.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the mayor and City Council of the City of Fraser.

Section III contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable. This report is intended solely for the use of the mayor, the City Council, and management of the City of Fraser and is not intended to be and should not be used by anyone other than these specified parties.

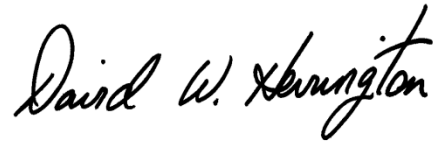
To the Honorable Mayor and
Members of the City Council
City of Fraser, Michigan

December 22, 2010

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

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

David W. Herrington

A handwritten signature in black ink that reads "Vincent Mannino II". The signature is written in a cursive style with a large, prominent 'V' and 'M'.

Vincent Mannino II

Section I - Communications Required Under SAS 115

In planning and performing our audit of the financial statements of the City of Fraser as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the government'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 government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses 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 deficiencies in the government's internal control to be material weaknesses:

Account Reconciliations - The account reconciliation process is an important part of the City's internal control and accounting procedures. The purpose of reconciliations is to ensure that general ledger account balances are supported by underlying transaction detail or third-party information. They also provide an important internal control, in that any differences identified between the underlying detail and an account balance through the reconciliation process may be indicative of an erroneous entry having been posted. 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. In addition, during our review of the City's bank reconciliations, we noted amounts listed as outstanding items that were actually transactions recorded incorrectly in the City's accounting records. In our testing of customer receivables and accounts payable, we noted that the subsidiary ledger did not agree to the amount reported in the general ledger. The differences had been identified, but a thorough reconciliation was not performed to determine the cause of the differences. We recommend that reconciliations be performed for critical account balances on a periodic basis, that all items requiring adjustment to the general ledger be addressed in a timely manner, and that a secondary review of the reconciliations includes critical evaluation of those items identified as differences.

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

December 22, 2010

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, 2010. 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.

Federal Revenue Recognition - During the course of our testing, we identified American Recovery and Reinvestment Act funds that were not recorded properly. We proposed entries to record the federal revenue and management posted the correcting entries. We recommend that a thorough review be performed periodically to ensure federal funds received are recorded appropriately.

A significant deficiency is a deficiency, or 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 government's internal control to be a significant deficiency:

Year-end Closing Adjustments - 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, including the requirements of GASB Statement 34. Accruals represent adjustments other than cash activity that impact the accounting records (capital assets, net pension asset, other postemployment benefits, etc.). We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as bond reserve requirements and valuing the interest in joint ventures). We are pleased to assist in this process as we 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

December 22, 2010

Section II - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 16, 2010, 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. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform 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 of Fraser. Such considerations were 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.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated December 22, 2010 regarding our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

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

December 22, 2010

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 23, 2010.

Significant Audit Findings

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 of Fraser are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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 an actuarial report prepared using data provided by the City. We evaluated the key factors and assumptions used to develop the estimated obligations in determining that they are 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

December 22, 2010

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. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as whole. 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 the adjustment related to the recognition of federal revenue received related to the American Recovery and Reinvestment Act.

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 December 22, 2010.

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

December 22, 2010

Section III - Legislative and Informational Items

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, 2010.

Revenue Sharing

Revenue sharing continues to be an area of great uncertainty for local communities across the state. Adding to the mix for 2010/2011 is the impact of the 2010 census on the constitutional portion of distributions, which is determined based on a community's population per the census, and the uncertainty behind sales tax collections. There are currently three different proposals for the State's FY 2011 revenue sharing among the legislative and executive branches of government. One common theme among the proposals, however, is the continued methodology that has been followed since early this decade in the modification of the revenue-sharing formula in an effort to keep revenue sharing in proportion to past distributions. In addition, all proposals attempt to minimize the impact of the 2010 census changes by adjusting the statutory distribution.

The governor's proposal, which appears to be drawing the most attention, would ensure that no local unit experiences a decline in revenue sharing, and for most communities, would hold them at the same level of revenue sharing as what was received during the State's 2010 fiscal year. In order to accomplish this, if a community were to have an increase in population (which would result in an increase to its constitutional distribution), an offsetting amount would be taken from its statutory revenue sharing to keep the total amount received the same as last year. If a community's population were to have decreased, thereby resulting in less constitutional revenue sharing, it would receive an increase in the statutory component. For local units that no longer are receiving statutory revenue sharing, an increase in population would actually result in an increase in the amount of revenue sharing being received.

We continue to recommend that local units of government be cautious when forecasting this revenue source for future years, even if an increase in population is anticipated. In addition, since the final population counts will not be released by the Census Bureau until April 2011, the October 2010 through April 2011 revenue-sharing payments will not reflect any census adjustments. Any adjustment to the total 2011 distribution for the census will be made on the June and August 2011 payments. Additional information on this can be found at the following link: http://www.michigan.gov/treasury/0,1607,7-121-1751_2197---,00.html.

We will also continue to keep you apprised as we become aware of further developments as the State finalizes the 2011 budget.

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

December 22, 2010

Property Taxes

The unprecedented decline in property tax values continues to be the most significant challenge faced by local governments in many years. Many communities have seen two years of declines in overall taxable value and it is still very uncertain how long the declines will continue and how severe they will be. The impact on each community and over what period of time will vary. The one constant, however, is that all communities affected will need to evaluate how their current expenditure structure can be altered to address the revenue that has been lost.

One important factor to consider is that the impact of changes in value (both the declines and eventual recovery) is not immediately felt by the City due to the length of time that elapses between the assessment of property values and when the taxes are available for appropriation. The following table illustrates the time lag related to property tax valuations:

Assessment date	12/31/07	12/31/08	12/31/09	12/31/10
Levy date	7/1/08	7/1/09	7/1/10	7/1/11
Budget year	6/30/09	6/30/10	6/30/11	6/30/12

More importantly, though, is the fact that when the recovery of property tax revenue begins, it will be very slow due to the impact of Headlee and Proposal A which limit the growth in property taxes to the lower of inflation or 5 percent, unless the millages are increased. In essence, we are experiencing a permanent downward adjustment in the resources available to fund government services (of between 20 percent and 35 percent, depending on location).

In response, many communities are considering steps to adjust their expenditures commensurate to the new levels of property tax revenue, including:

- Five-year financial forecasts
- Consolidation or contracting of services
- Establishment of authorities and joint ventures
- Multi-year budgets
- “Worst-case scenario” financial modeling
- Analysis of current user fees

We commend the City for efforts already made to address this situation over the past few years, through reduced staffing levels, reduction of budgets, and review of employee benefit offerings, among others. It is clear that there is not a singular approach that will fit all communities - each municipality will need to find a balance between cost-cutting and revenue-generating ideas that will best suit its residents’ needs. We are happy to offer our assistance with this process in whatever capacity is most beneficial to the City as you move forward.

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

December 22, 2010

Upcoming Accounting Change - GASB No. 54

By now, you are likely aware that GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, is effective for the City's 2010/2011 fiscal year. The new standard 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: nonspendable, restricted, committed, assigned, and unassigned, determined based on the availability for future appropriation (depending on the extent of externally and internally imposed constraints on their use).

GASB No. 54 also modifies the definition of existing governmental fund types. The changes to the General Fund, debt service fund, and capital project fund definitions are not likely to result in any significant changes to the fund types currently used. However, changes to the special revenue fund definition could result in some existing special revenue funds no longer meeting the criteria, resulting in fund reclassifications. Specifically, any fund that does not have a particular external revenue source as its foundation will likely no longer meet the definition of a special revenue fund and may need to be reported as a different fund type or reported within the General Fund (although consideration could be given to continuing to budget separately, if the governing body finds that useful).

GASB No. 54 is required to be implemented for financial statements for periods beginning after June 15, 2010. Retroactive restatement is required for all periods presented, although there is an exception for the statistical section in a CAFR. At a minimum, governments will need to apply this change at the beginning of the year of implementation so that the management's discussion and analysis disclosures are comparative. The standard also requires disclosure in the financial statements of any minimum fund balance policies, and the purposes for restrictions, commitments, and assignments of fund balance.

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. You will likely want to consider what formal "commitments" you wish to create and adopt formal policies or approvals to document these decisions. Commitments or assignments of fund balance should be made prior to June 30, 2011.

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

December 22, 2010

Other Legislative Items

- The Tax Increase Prevention and Reconciliation Act of 2005 enacted a new subsection of the Internal Revenue Code requiring a 3 percent income tax withholding by governments on payments for property and services made after December 31, 2010. These rules apply to governmental units with annual payments of \$100 million or more. In determining whether governmental annual payments reach that \$100 million threshold, the IRS has indicated that wages (including fringes) or payments that are subject to other forms of mandatory or optional withholding can be excluded. The amount also does not include payments for real property, interest, payments made to other governments or exempt organizations, or payments made on the basis of need or income. In early January, the IRS sent out notices to those governmental entities it believes will be impacted.

The American Recovery and Reinvestment Act that the president signed in February delays this mandate until 2012; additionally, there have been attempts to repeal it altogether.

- The Patient Protection Act of 2010 includes additional requirements related to informational tax filings. Municipalities and other entities are currently required to issue Form 1099-MISC to anyone paid at least \$600 for services, rents, or other purposes; payments to most corporations are excluded from this requirement. The Act would expand the current requirements to payments made to all corporations effective January 1, 2012, which will significantly increase the number of 1099s required to be issued by the City.

As a result, increased recordkeeping will be required, and planning for this change will be important. Ignoring the requirements could lead to expensive penalties for failure to comply. We recommend that the City begin obtaining tax information from all vendors, and ensure that existing software has the necessary tools to start accumulating this data and organizing it in order to generate the 1099 form. While it is possible that some repeal or limitation of these requirements may occur in response to concerns over the administrative burden placed on small businesses and others, it is important that you do not delay planning for this major change. We will keep you apprised of any future changes to the requirements.

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

December 22, 2010

Client: **City of Fraser**
Opinion Unit: **Governmental Activities**
Y/E: **June 30, 2010**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	Entry to agree the recorded cash balance per the general ledger to the June 30, 2010 bank reconciliation	\$ 27,217					\$ 27,217		\$ 27,217
A2	Entry to record the due to/due from between the Senior Housing Complex Fund to the General Fund per the June 30, 2010 bank reconciliation	47,770		\$ 47,770					
ESTIMATE ADJUSTMENTS:									
B1	None								
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
	Total	\$ 74,987	\$ -	\$ 47,770	\$ -	\$ -	\$ 27,217	\$ -	\$ 27,217

Client: **City of Fraser**
Opinion Unit: **Business-type Activities**
Y/E: **June 30, 2010**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	Entry to record the due to/due from between the Senior Housing Complex Fund to the General Fund per the June 30, 2010 bank reconciliation	\$ (47,770)		\$ (47,770)					
A2	Entry to record the City's portion of debt related to the Oakland-Macomb Interceptor Drain project		\$ 35,215	35,215					
ESTIMATE ADJUSTMENTS:									
B1	None								
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
	Total	\$ (47,770)	\$ 35,215	\$ (12,555)	\$ -	\$ -	\$ -	\$ -	\$ -

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

December 22, 2010

Client: **City of Fraser**
Opinion Unit: **General Fund (Major Governmental Fund)**
Y/E: **June 30, 2010**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	Entry to record the due to/due from between the Senior Housing Complex Fund to the General Fund per the June 30, 2010 bank reconciliation	\$ 47,770		\$ 47,770					
A2	Entry to agree the recorded cash balance per the general ledger to the June 30, 2010 bank reconciliation	27,217					\$ 27,217		\$ 27,217
ESTIMATE ADJUSTMENTS:									
B1	None								
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
	Total	<u>\$ 74,987</u>	<u>\$ -</u>	<u>\$ 47,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,217</u>	<u>\$ -</u>	<u>\$ 27,217</u>

Client: **City of Fraser**
Opinion Unit: **Senior Housing Complex Fund (Major Enterprise Fund)**
Y/E: **June 30, 2010**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	Entry to record the due to/due from between the Senior Housing Complex Fund to the General Fund per the June 30, 2010 bank reconciliation	\$ (47,770)		\$ (47,770)					
A2									
ESTIMATE ADJUSTMENTS:									
B1	None								
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
	Total	<u>\$ (47,770)</u>	<u>\$ -</u>	<u>\$ (47,770)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

December 22, 2010

Client: City of Fraser
Opinion Unit: Water and Sewer Fund (Major Enterprise Fund)
Y/E: June 30, 2010

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	Entry to record the City's portion of debt related to the Oakland-Macomb Interceptor Drain project		\$ 35,215	\$ 35,215					
A2									
ESTIMATE ADJUSTMENTS:									
B1	None								
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ 35,215	\$ 35,215	\$ -	\$ -	\$ -	\$ -	\$ -