

**City of Fraser
Macomb County, Michigan**

FINANCIAL STATEMENTS

June 30, 2014

City of Fraser

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principles

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 30, 2014

City of Fraser

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

As management of the City of Fraser, Michigan (the City), we offer readers of the financial statements a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets of the City of Fraser exceeded its liabilities at the close of the recent fiscal year by \$11,635,322. The City had a deficit in unrestricted net position of \$15,740,929 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 \$3,210,896, a decrease of \$698,305 in comparison with the prior year.
- The City of Fraser's total debt decreased by \$1,410,238 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 supplementary 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.

The Statement of Net Position presents information on all of the City of Fraser's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Fraser is improving or deteriorating.

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

The Government-wide Financial Statements distinguish functions of the City of Fraser that are mainly 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, public works, and recreation and culture. 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 Authority for which the City is financially accountable. Financial information for these entities is reported separately from the financial information presented for the primary government and due to their immateriality is included with the fiduciary funds.

The Government-wide Financial Statements can be found on pages 1-2 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: governmental, proprietary, and fiduciary.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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.

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 Revenues, 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 Revenues, Expenditures, and Changes in Fund Balance for the general fund, major street fund, and gambling 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 to demonstrate compliance with the annual appropriated budget.

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 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 Statements, 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 supplementary 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 45-49.

Government-wide Financial Analysis

As noted earlier, net position 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 \$11,635,322 at the close of the recent fiscal year.

City of Fraser

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

By far the largest portion of the City of Fraser's net position reflects its investment in capital assets (for example, 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.

TABLE 1 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current Assets	\$ 4,011	\$ 4,751	\$ 2,968	\$ 2,843	\$ 6,979	\$ 7,594
Capital Assets, net	16,417	17,170	29,570	30,633	45,987	47,803
Total Assets	20,428	21,921	32,538	33,476	52,966	55,397
Liabilities						
Current Liabilities	1,770	1,831	1,700	2,311	3,470	4,142
Non-current Liabilities	21,272	18,957	16,589	17,216	37,861	36,173
Total Liabilities	23,042	20,788	18,289	19,527	41,331	40,315
Net Position						
Net investment in capital assets	12,021	11,826	13,659	13,949	25,680	25,775
Restricted	1,696	1,947	-	-	1,696	1,947
Unrestricted (Deficit)	(16,331)	(12,640)	590	-	(15,741)	(12,640)
Total Net Position	<u>\$ (2,614)</u>	<u>\$ 1,133</u>	<u>\$ 14,249</u>	<u>\$ 13,949</u>	<u>\$ 11,635</u>	<u>\$ 15,082</u>

Governmental Activities' net position decreased by \$3,447,672 compared to the prior fiscal year. As the City complies with recent changes to the accounting standards, recognition of other post-employment benefit obligations has found its way to our balance sheet. Other post-employment benefit obligations for Governmental Activities have increased by \$2,814,351 over the past year. This number will continue to increase in concert with healthcare insurance premium annual rate hikes.

Reviewing the financial data within the Business-Type Activities, the City continues to make significant progress in improving net position over the past few years. The total net position has increased by \$300,513, while the unrestricted portion of net position has increased by \$590,567. Within the Water and Sewer Fund, the City is constantly reviewing its rate structure to ensure the system is covering current expenses and as well as preparing for future projects.

City of Fraser

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

TABLE 2 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenue:						
Charges for Service	\$ 2,937	\$ 3,125	\$ 7,105	\$ 6,627	\$ 10,042	\$ 9,752
Operating Grants and Contribution	881	921	-	415	881	1,336
General Revenue:						
Property Taxes	9,337	8,707	-	-	9,337	8,707
State-shared Revenue	1,272	1,238	-	-	1,272	1,238
Unrestricted Investment Earnings	7	35	13	3	20	38
Transfers and Other Revenue	204	692	(136)	(138)	68	554
Total Revenue	14,638	14,718	6,982	6,907	21,620	21,625
Program Expenses						
General Government	3,073	3,316	-	-	3,073	3,316
Public Safety	9,180	10,329	-	-	9,180	10,329
Public Works	3,945	2,632	-	-	3,945	2,632
Health and Welfare	646	810	-	-	646	810
Recreation and Culture	1,097	23	-	-	1,097	23
Community and Economic Development	23	1,294	-	-	23	1,294
Interest on Long-term Debt	121	226	-	-	121	226
Water and Sewer	-	-	6,353	6,405	6,353	6,405
Senior Housing	-	-	328	409	328	409
Total Program Expenses	18,085	18,630	6,681	6,814	24,766	25,444
Change in Net Position	\$ (3,447)	\$ (3,912)	\$ 301	\$ 93	\$ (3,146)	\$ (3,819)

Business-type Activities

Capital assets for business-type activities decreased by \$1,063,047 compared to the prior year. The decrease relates to continued work completed by the Oakland Macomb Drainage District and the water main replacement taking place on Groesbeck Avenue between 13 and 14 Mile Roads offset by depreciation expense.

The senior citizen housing complex continues to maintain a healthy net position. The facility has had several updates, and the fund is able to make its annual debt payments.

For the third consecutive year, the Water and Sewer Fund ended the fiscal year with a positive cash balance. This has been the result of ensuring the utility rates reflect the true cost of the water and sewer system. The ultimate goal is to maintain a fund balance that will cover at least two months' of expenses along with an adequate amount to maintain the City's aging system through annual capital improvement projects.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Governmental funds

As of the end of the current fiscal year, the City of Fraser's governmental funds reported combined ending fund balances of \$3,210,896. The unassigned general fund balance of \$1,474,884 computes to 11.9 percent of the 2014-15 general fund budget (approximately 1.43 months). The Government Finance Officers Association recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund expenditures.

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. Total net position of the Water and Sewer Fund as of June 30, 2014, amount to \$12,473,367, while the unrestricted portion of the net position at the end of the year amounted to \$482,671. Last year's unrestricted deficit within that particular fund was \$80,823. The senior citizen housing complex ended with unrestricted net position totaling \$107,896.

General Fund Budgetary Highlights

City Council, City Administration, and Department Heads continue to work hard to stay on budget. Even as budgetary expenditures have been decreased over the past two years, the same level of service continues to be provided by the City. During the course of 2013-14, the general fund revenues came in \$444,281 worse than expected. The most significant variances were noted for property tax revenue and miscellaneous revenue. In an \$11.8 million dollar budget, expenditures were \$18,126 less than budgeted. The net between budgetary revenue and expenditures for 2013-14 was \$426,155.

Capital Assets

The City of Fraser's net investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$45,987,575 (net of accumulated depreciation). The net investment in capital assets includes land, buildings and system improvements, vehicles, equipment, park facilities, intangible assets, and streets. A majority of the capital asset activity is associated with the gravity flow sewer project.

Economic Factors and Next Year's Budgets

The economy continues to be a prominent factor in the City of Fraser's financial condition and upcoming budgets. Property values sharply declined over the past few years, and the City's revenue garnered by property taxes has grown considerably smaller. The good news is that property values are starting to stabilize. The City is still projecting a slight increase in property values for the upcoming 2014-15 budget cycle.

Requests for Information

This financial report is intended to provide the City's citizens, taxpayers, customers, and investor 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.

BASIC FINANCIAL STATEMENTS

City of Fraser

STATEMENT OF NET POSITION

June 30, 2014

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

See accompanying notes to financial statements.

City of Fraser

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

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

See accompanying notes to financial statements.

City of Fraser
Governmental Funds
BALANCE SHEET
June 30, 2014

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

See accompanying notes to financial statements.

City of Fraser

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2014

Total fund balances - governmental funds \$ 3,210,896

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 89,401,946	
Accumulated depreciation is	<u>(73,168,896)</u>	
Capital assets, net		16,233,050

Long-term receivables are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	12,046
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An internal service fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund is included in the governmental activities in the government-wide statement of net position.	429,930
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.
Long-term liabilities at year-end consist of:

Compensated absences	(1,083,495)	
Accrued interest payable	(29,506)	
Long-term obligations	(4,363,349)	
Net pension obligation	(388,984)	
Other post-employment benefits obligation	<u>(16,634,608)</u>	
		<u>(22,499,942)</u>

Net position of governmental activities \$ (2,614,020)

City of Fraser

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2014

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

See accompanying notes to financial statements.

City of Fraser

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ (698,305)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 457,666	
Depreciation expense	<u>(857,469)</u>	
Excess of depreciation expense over capital outlay		(399,803)

An internal service fund is used by management to charge the costs of certain activities to individual funds. The net position of the internal service fund increased in the current period. (9,180)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Debt principal retirement	629,435
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in net pension obligation	(391,579)	
Decrease in accrued interest payable	3,514	
(Increase) in compensated absences	(6,052)	
(Increase) in other post-employment benefits obligation	<u>(2,575,702)</u>	
		<u>(2,969,819)</u>

Change in net position of governmental activities \$ (3,447,672)

City of Fraser

Proprietary Funds

STATEMENT OF NET POSITION

Year Ended June 30, 2014

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

See accompanying notes to financial statements.

City of Fraser

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2014

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

See accompanying notes to financial statements.

City of Fraser

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Business-type Activities			Governmental
	Nonmajor		Total Enterprise Funds	Internal Service Fund
	Water and Sewer Fund	Senior Citizen Housing Complex Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 7,074,089	\$ 518,499	\$ 7,592,588	\$ 671,295
Cash paid to suppliers	(4,753,305)	(185,494)	(4,938,799)	(599,868)
Cash paid to employees	(399,118)	(32,058)	(431,176)	(45,511)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,921,666	300,947	2,222,613	25,916
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	-0-	15,504
Transfers out	(135,700)	-	(135,700)	(17,844)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(135,700)	-0-	(135,700)	(2,340)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital acquisitions	(327,599)	(15,400)	(342,999)	-
Tap-in fees	11,407	-	11,407	-
Payments on long-term borrowing	(547,911)	(225,000)	(772,911)	(15,504)
Interest and fees paid	(349,992)	(20,779)	(370,771)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,214,095)	(261,179)	(1,475,274)	(15,504)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	12,288	326	12,614	16,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	584,159	40,094	624,253	24,272
Cash and cash equivalents, beginning of year	931,476	115,554	1,047,030	258,118
Cash and cash equivalents, end of year	<u>\$ 1,515,635</u>	<u>\$ 155,648</u>	<u>\$ 1,671,283</u>	<u>\$ 282,390</u>

City of Fraser

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2014

	Business-type Activities			Governmental
	<u>Nonmajor</u>			Activities
	Water and Sewer Fund	Senior Citizen Housing Complex Fund	Total Enterprise Funds	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 602,623	\$ 195,709	\$ 798,332	\$ (23,040)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	1,314,290	91,756	1,406,046	50,440
Decrease (increase) in:				
Receivables	87,501	-	87,501	(10,230)
Due from other funds	-	15,000	15,000	-
Due from other governmental units	396,242	-	396,242	-
Prepays	38	-	38	-
Increase (decrease) in:				
Accounts payable	(718,081)	(1,738)	(719,819)	6,709
Accrued liabilities	197	220	417	684
Compensated absences	207	-	207	1,353
Other post-employment benefits obligation	238,649	-	238,649	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,921,666</u>	<u>\$ 300,947</u>	<u>\$ 2,222,613</u>	<u>\$ 25,916</u>

See accompanying notes to financial statements.

City of Fraser

Fiduciary Funds

STATEMENT OF NET POSITION

June 30, 2014

	Pension and Retiree Healthcare Trust Funds	Economic Development Corporation	Downtown Development Authority	Agency Fund
ASSETS				
Cash and cash equivalents	\$ 1,323,503	\$ 1,564	\$ 1,044	\$ 671,366
Investments				
U.S. government bonds	1,384,323	-	-	-
U.S. government securities	432,023	-	-	-
Equity securities	13,184,279	-	-	-
Corporate bonds	1,203,660	-	-	-
Commercial mortgage obligations	304,441	-	-	-
Municipal bonds	140,007	-	-	-
Mutual funds	9,602,514	-	-	-
	<u>27,574,750</u>	<u>1,564</u>	<u>1,044</u>	<u>\$ 671,366</u>
LIABILITIES				
Due to individuals and agencies	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 671,366</u>
NET POSITION				
Held in trust for pension and other post-employment benefits	27,574,750	-	-	
Unrestricted	<u>-</u>	<u>1,564</u>	<u>1,044</u>	
	<u>\$ 27,574,750</u>	<u>\$ 1,564</u>	<u>\$ 1,044</u>	

See accompanying notes to financial statements.

City of Fraser

Fiduciary Funds

STATEMENT OF CHANGES IN NET POSITION

Year Ended June 30, 2014

	Pension and Retiree Healthcare Trust Funds	Economic Development Corporation	Downtown Development Authority
ADDITIONS			
Investment income			
Interest and dividends	\$ 509,015	\$ -	\$ 45
Net appreciation in fair value of investments	3,500,534	-	-
Investment related expenses	(95,010)	-	-
Net investment income	3,914,539	-0-	45
Contributions			
Employer	1,531,588	-	-
Employee	273,318	-	-
Total contributions	1,804,906	-0-	-0-
TOTAL ADDITIONS	5,719,445	-0-	45
DEDUCTIONS			
Benefit payments	2,845,047	-	-
Administrative expenses	94,193	-	-
TOTAL DEDUCTIONS	2,939,240	-0-	-0-
CHANGE IN NET POSITION	2,780,205	-0-	45
Net position, beginning of year	24,794,545	1,564	999
Net position, end of year	<u>\$ 27,574,750</u>	<u>\$ 1,564</u>	<u>\$ 1,044</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fraser, Michigan, (the City) is located in Macomb County, Michigan, and has a population of approximately 14,480. The City operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, and utilities services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below:

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City of Fraser (primary government) and its component units, entities for which the government is considered to be financially accountable. The component units are legally separate from the City; however, they are not discretely presented because they are immaterial to the financial statements as a whole. Therefore, the component units are included in the fiduciary funds financial statements.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the City of Fraser, Michigan, contain all the funds controlled by the City Council.

2. Blended Component Units

The City of Fraser 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 Citizen Housing Complex 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 eleven (11) member retirement 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.

3. Fiduciary Component Units

The component units are reported in the fiduciary funds financial statements since they are not material to the City's financial statements as a whole. However, the City remains financially accountable for these entities, even though they are legally separate. The fiduciary funds financial statements contain the following component units:

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 10 individuals, is selected by the City Council. The DDA does not have separate issued financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Fiduciary Component Units - continued

Economic Development Corporation - The Economic Development Corporation (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.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the primary government as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

The City reports the following major enterprise fund:

- a. The Water and Sewer Fund is used to account for the operations required to provide water distribution, water treatment, sewage disposal, and sewage treatment systems for the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

Additionally, the City reports an internal service fund to account for the management of motor pool services provided to other departments on a cost-reimbursement basis.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The City also reports fiduciary trust funds to account for the activities of employee benefit plans, which accumulate resources for pension and other post-employment benefit payments to qualified employees and fiduciary funds for the Economic Development Corporation and Downtown Development Authority, respectively.

Agency funds are used to account for assets held by the City in trustee capacity. Agency funds are custodial in nature and do not involve the results of operations.

5. Measurement Focus

The government-wide, proprietary, and non-agency fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is sixty (60) days. Revenues that are considered measurable but not available are recorded as receivables and unavailable revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required and other supplementary information were prepared on the modified accrual basis. The City prepares separate budgets for the General Fund and the Garbage Collection Fund. For financial statement purposes and in accordance with accounting principles generally accepted in the United States of America, the two funds are combined. Annual appropriated budgets are adopted for all required governmental fund types. The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a. The City requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year on or before April 15 of each year. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.
- b. A Public Hearing is conducted to obtain taxpayers' comments in May.
- c. At the May Council meeting, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash, Cash Equivalents, and Investments

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the City's investments. Cash consists of checking, savings, and money market accounts. Cash equivalents consist of temporary investments in mutual funds and certificates of deposit with original maturities of ninety (90) days or less.

Investments include U.S. Government Securities and certificates of deposit with original maturities of greater than ninety (90) days from the date of purchase. Investments are recorded at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

9. Restricted Cash and Cash Equivalents

The City's restricted cash and cash equivalents are for debt service repayment and capital purchases.

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan or other governments for various payments and grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Receivables

Receivables consist of amounts due related from individuals and businesses related to charges for services, interest receivable, special assessments receivable, taxes levied that have not been collected, and other amounts owed to the City at year-end.

12. Property Tax

The City of Fraser bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Fraser on July 1 on the taxable valuation of property located in the City as of the preceding December 31 and are due without penalty on August 31. The July 1 levy is composed of the City's millage, County's millage assessments, and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Macomb County Treasurer for collection. The Macomb County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to \$20 per \$1,000 of assessed valuation for general governmental services and additional amounts specifically designated for debt repayment, ambulance services, and city hall debt repayment. For the year ended June 30, 2014, the City levied 17.9962 mills per \$1,000 of assessed valuation for general governmental services, 0.3884 mills for debt repayment, 0.9818 mills for ambulance services, and 1.4695 mills for city hall debt repayment. The total taxable value for the 2013 levy for property within the City was \$429,752,823.

13. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in fund balance. Reported prepaid expenditures are equally offset by nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of fund balance.

14. Unearned Revenue

The City defers revenue recognition in connection with resources that have been received but not yet earned.

15. Compensated Absences

Certain city employees are granted vacation and sick leave in varying amounts and are permitted to accumulate these benefits. In the event of termination, an employee is paid for accumulated vacation and sick time. All employees with accumulated unused vacation and sick time pay at June 30, 2014, along with related payroll taxes, are recorded in the government-wide and proprietary fund financial statements.

16. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

17. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one (1) year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings and improvements	20 - 50 years
Vehicles	5 - 20 years
Machinery and equipment	5 - 20 years
Library collection	7 years
County road improvements	5 - 20 years
Roads and sidewalks	20 - 30 years
Water and sewer distribution systems	25 - 30 years
Furniture and fixtures	5 - 15 years

18. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, unavailable revenue is reported on in the governmental funds balance sheet.

19. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

20. Restrictions of Net Position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding sources or some other outside source which precludes their use for unrestricted purpose.

21. 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 expected.

22. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of June 30, 2014, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 2,655,340	\$ 2,728,236
Certificates of deposit	<u>1,992,441</u>	<u>1,992,441</u>
TOTAL PRIMARY GOVERNMENT	4,647,781	4,720,677
FIDUCIARY FUNDS		
Checking and savings	621,845	599,283
Certificates of deposit	<u>1,375,632</u>	<u>1,046,628</u>
TOTAL FIDUCIARY FUNDS	<u>1,997,477</u>	<u>1,645,911</u>
TOTAL REPORTING ENTITY	<u>\$ 6,645,258</u>	<u>\$ 6,366,588</u>

The primary government cash and cash equivalents caption on the basic financial statements included \$2,550 of imprest cash.

Deposits

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2014, the City accounts were insured by the FDIC for \$1,528,993 and the amount of \$4,837,595 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of June 30, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT Governmental agencies	<u>\$ 522,532</u>	AA+	7.63 years

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments - continued

<u>Investment Type</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
FIDUCIARY FUNDS			
U.S. government bonds	\$ 1,384,323	Aaa	10.15 years
U.S. government securities	432,023	N/A	5.40 years
Equity securities	13,184,279	N/A	N/A
Corporate bonds	1,203,660	A	8.06 years
Commercial mortgage obligations	304,441	Various	7.53 years
Municipal bonds	140,007	AA	2.19 years
Mutual funds	<u>9,602,514</u>	N/A	N/A
TOTAL FIDUCIARY FUNDS	<u>\$ 26,251,247</u>		

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). Rating information on the City's investments as of June 30, 2014, is presented above.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio with the objective of attaining a rate of return, throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Diversifying investments of the City's funds. The City shall diversify its investments by security type and by financial institution. With the exception of United States Treasury securities and authorized investment pools, no more than 50% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

The City's Pension Trust and Retiree Health Care Funds limit investments in Baa-rated bonds to no greater than 15% of the fixed-income section of the portfolio. No more than 5% of the total asset portfolio may be invested in a single fixed-income security and no more than 10% 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 investment in equity securities are between 40% and 60% of the portfolio and no more than 2% of the total portfolio shall be invested in a single equity security.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Requiring that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. The City's Pension Trust and Retiree Health Care Funds do not have an investment policy for custodial credit risk.

The cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2014:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 2,563,430	\$ 1,997,477	\$ 4,560,907
Restricted cash and cash equivalents	94,460	-	94,460
Investments	<u>2,514,973</u>	<u>26,251,247</u>	<u>28,766,220</u>
	<u>\$ 5,172,863</u>	<u>\$ 28,248,724</u>	<u>\$ 33,421,587</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2014, are as follows:

Due to General Fund from:		
Nonmajor governmental funds		\$ 491,403
Nonmajor enterprise fund		<u>364</u>
		<u>\$ 491,767</u>
Due to nonmajor governmental funds from:		
General Fund		\$ 907,615
Nonmajor governmental funds		<u>217,166</u>
		<u>\$ 1,124,781</u>
Due to nonmajor internal service fund from:		
Nonmajor governmental funds		<u>\$ 2,500</u>

Amounts appearing as interfund payables and receivables arise from three types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. A second type of transaction is where one fund provides a good or service to another fund. The third type of transaction is where one fund borrows cash from another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 17,095
Internal service fund	17,844
Water and Sewer Fund	135,700
Other nonmajor governmental funds	<u>121,837</u>
	<u>\$ 292,476</u>
Transfers to internal service fund from:	
Nonmajor governmental funds	<u>\$ 15,504</u>

Transfers from the Water and Sewer Fund to nonmajor governmental funds were budgeted transfers to cover various expenditures between nonmajor governmental funds. Transfers to nonmajor governmental funds and the internal service fund from the other nonmajor governmental funds were to cover debt payments.

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Primary Government

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 4,938,136	\$ -	\$ -	\$ 4,938,136
Construction in progress	<u>405,594</u>	<u>173,552</u>	<u>(546,224)</u>	<u>32,922</u>
Capital assets not being depreciated	5,343,730	173,552	(546,224)	4,971,058
Capital assets being depreciated				
Land improvements	162,706	-	-	162,706
Roads and sidewalks	73,227,666	546,224	-	73,773,890
County road improvements	553,414	-	-	553,414
Buildings and improvements	6,514,985	-	-	6,514,985
Vehicles	3,710,694	108,888	-	3,819,582
Machinery and equipment	1,340,552	145,456	-	1,486,008
Library collection	230,570	29,770	(29,689)	230,651
Furniture and fixtures	<u>274,291</u>	<u>-</u>	<u>-</u>	<u>274,291</u>
Subtotal	86,014,878	830,338	(29,689)	86,815,527

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Governmental Activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (102,835)	\$ (5,965)	\$ -	\$ (108,800)
Roads and sidewalks	(68,103,307)	(435,078)	-	(68,538,385)
County road improvements	(177,449)	(18,447)	-	(195,896)
Buildings and improvements	(2,117,316)	(141,565)	-	(2,258,881)
Vehicles	(2,635,455)	(154,541)	-	(2,789,996)
Machinery and equipment	(963,430)	(104,404)	-	(1,067,834)
Library collection	(131,403)	(33,310)	29,689	(135,024)
Furniture and fixtures	(259,692)	(14,599)	-	(274,291)
Subtotal	<u>(74,490,887)</u>	<u>(907,909)</u>	<u>29,689</u>	<u>(75,369,107)</u>
Net capital assets being depreciated	<u>11,523,991</u>	<u>(77,571)</u>	<u>-0-</u>	<u>11,446,420</u>
Capital assets, net	<u>\$ 16,867,721</u>	<u>\$ 95,981</u>	<u>\$ (546,224)</u>	<u>\$ 16,417,478</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 274,991
Public safety	154,179
Public works	338,883
Recreation and culture	89,416
Internal Service Fund	50,440
	<u>\$ 907,909</u>

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in progress	718,274	327,599	(1,045,873)	-0-
Capital assets not being depreciated	1,555,317	327,599	(1,045,873)	837,043
Capital assets being depreciated				
Water and sewer distribution systems	37,601,973	1,045,873	-	38,647,846
Buildings and building improvements	3,895,652	15,400	-	3,911,052
Subtotal	41,497,625	1,061,273	-0-	42,558,898

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Business-type Activities - continued				
Less accumulated depreciation for:				
Water and sewer distribution systems	\$(10,743,581)	\$ (1,314,290)	\$ -	\$(12,057,871)
Buildings and building improvements	(1,676,217)	(91,756)	-	(1,767,973)
Subtotal	(12,419,798)	(1,406,046)	-0-	(13,825,844)
Net capital assets being depreciated	29,077,827	(344,773)	-0-	28,733,054
Capital assets, net	<u>\$ 30,633,144</u>	<u>\$ (17,174)</u>	<u>\$ (1,045,873)</u>	<u>\$ 29,570,097</u>

Depreciation expense was charged to the following business-type activities:

Water and Sewer	\$ 1,314,290
Senior Citizen Housing Complex	91,756
	<u>\$ 1,406,046</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amount Due in One Year
Governmental Activities					
2010 Refunding Bonds	\$ 3,285,000	\$ -	\$ (425,000)	\$ 2,860,000	\$ 420,000
2012A Refunding Bonds	1,340,000	-	(110,000)	1,230,000	115,000
Lease purchase agreement - Aerial Platform Fire Truck	251,993	-	(62,998)	188,995	62,998
Lease purchase agreement - Dump Truck	48,777	-	(15,504)	33,273	16,247
Installment purchase agreement - Copier	47,991	-	(16,000)	31,991	16,000
Installment purchase agreement - E911 phones	67,800	-	(15,437)	52,363	15,952
Compensated absences	1,079,496	643,082	(635,677)	1,086,901	589,033
	6,121,057	643,082	(1,280,616)	5,483,523	1,235,230

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amount Due in One Year
Business-type Activities					
2012B Refunding Bonds	\$ 1,525,000	\$ -	\$ (225,000)	\$ 1,300,000	\$ 270,000
2008 North Gratiot Interceptor Drainage District	340,369	-	(12,860)	327,509	12,860
2010B OMID Drainage District	140,712	-	(5,577)	135,135	5,810
2010A MID Drainage District	3,530,110	-	(120,139)	3,409,971	121,714
2010 North Gratiot Drainage District	32,752	-	(1,113)	31,639	1,123
2010A OMID Drainage District	558,094	-	(24,866)	533,228	25,447
2009 Clean Water Revolving Loan Fund	6,505,000	-	(310,000)	6,195,000	320,000
2011 OMID Drainage District	728,420	-	-	728,420	28,532
2011 MID Drainage District	1,358,262	-	(38,356)	1,319,906	38,356
2013A OMID Drainage District	1,589,514	-	-	1,589,514	-
Installment purchase agreement - Sewer vacuum equipment	310,000	-	(25,000)	285,000	30,000
Installment purchase agreement - Backhoe	66,000	-	(10,000)	56,000	10,000
Compensated absences	2,433	5,005	(4,798)	2,640	2,640
	<u>16,686,666</u>	<u>5,005</u>	<u>(777,709)</u>	<u>15,913,962</u>	<u>866,482</u>
	<u>\$ 22,807,723</u>	<u>\$ 648,087</u>	<u>\$ (2,058,325)</u>	<u>\$ 21,397,485</u>	<u>\$ 2,101,712</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Governmental Activities

General Obligation Bonds

\$3,960,000 2010 General Obligation Unlimited Tax Refunding Bonds dated August 25, 2010, due in annual installments ranging from \$410,000 to \$530,000 through October 1, 2019, with interest ranging from 2.00 to 4.00 percent.	\$ 2,860,000
\$1,340,000 2012A General Obligation Limited Tax Refunding Bonds dated June 12, 2012, due in annual installments ranging from \$115,000 to \$165,000 through October 1, 2022, with interest of 2.0 percent.	<u>1,230,000</u>
	<u>\$ 4,090,000</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

Governmental Activities - Continued

Installment and Lease Purchase Agreements

\$699,980 Lease Purchase Agreement for an aerial platform fire truck dated October 17, 2006, due in annual installments of \$62,998 through October 17, 2016, with interest of 4.43 percent.	\$ 188,995
\$109,005 Installment Purchase Agreement for a dump truck dated December 22, 2009, due in annual installments ranging from \$16,247 to \$17,027 through April 1, 2016, with interest of 4.79 percent.	33,273
\$61,991 Installment Purchase Agreement for a copier dated June 9, 2011, due in an annual installments ranging from \$15,991 to \$16,000 through October 1, 2015, with interest of 2.745 percent.	31,991
\$129,049 Installment Purchase Agreement for Emergency 911 Telephone System dated September 20, 2012, due in monthly installments of \$1,453, including interest of 3.287 percent through August 2017.	52,363
	<u>\$ 306,622</u>

Business-type Activities

General Obligation Bonds

\$1,525,000 2012B General Obligation Building Authority Refunding Bonds dated September 20, 2012, due in annual installments ranging from \$250,000 to \$270,000 through November 1, 2018, with interest at 1.45 percent.	<u>\$ 1,300,000</u>
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Macomb County Water Disposal District

\$383,067 2008 North Gratiot Interceptor Drainage District Bonds dated June 1, 2008, due in annual installments ranging from \$12,860 to \$20,577 through May 1, 2033, with interest ranging from 4.00 to 5.00 percent.	\$ 327,509
\$155,701 2010B Oakland-Macomb Interceptor Drainage District Bonds dated April 1, 2010, due in annual installments ranging from \$5,810 to \$12,084 through October 1, 2030, with interest ranging from 3.45 to 5.90 percent.	135,135
\$3,766,448 2010A Macomb Interceptor Drainage District Bonds dated August 30, 2010, due in annual installments ranging from \$121,714 to \$221,764 through April 1, 2035, with interest ranging from 2.05 to 5.50 percent.	3,409,971
\$35,618 2010 North Gratiot Drainage District Bonds dated May 11, 2010, due in annual installments ranging from \$1,123 to \$2,047 through April 1, 2035, with interest ranging from 2.75 to 6.35 percent.	31,639

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

Business-type Activities - Continued

\$605,990 2010A Oakland-Macomb Interceptor Drainage District Bonds dated February 1, 2010, due in annual installments ranging from \$25,447 to \$37,996 through April 1, 2031, with interest of 2.50 percent.	\$ 533,228
\$728,420 2011 Oakland-Macomb Interceptor Drainage District Bonds dated January 1, 2012, due in annual installments ranging from \$28,532 to \$45,508 through October 1, 2033, with interest of 2.50 percent.	728,420
\$1,389,850 2011 Macomb Interceptor Drainage District Bonds dated October 18, 2011, due in annual installments ranging from \$38,356 to \$112,813 through October 1, 2031, with interest of 5.00 percent.	1,319,906
\$1,589,514 2013A Oakland-Macomb Interceptor Drainage District Bonds dated June 25, 2013, due in estimated annual installments ranging from \$65,396 to \$95,287 through October 1, 2034, with interest of 2.00 percent.	<u>1,589,514</u>
	<u><u>\$ 8,075,322</u></u>

Revenue Bond

\$7,398,000 2009 Clean Water Revolving Loan Fund, dated April 17, 2009, due in annual installments ranging from \$320,000 to \$460,000 through October 1, 2029, with interest of 2.50 percent.	<u><u>\$ 6,195,000</u></u>
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Installment Lease Agreements

\$330,934 Lease Purchase Agreement for sewer vacuum equipment dated December 7, 2011, due in annual installments ranging from \$30,000 to \$45,000 through October 1, 2021, with interest of 2.97 percent.	\$ 285,000
\$76,164 Lease Purchase Agreement for a backhoe dated July 11, 2012, due in annual installments ranging from \$10,000 to \$12,000 through October 1, 2018, with interest of 3.25 percent.	<u>56,000</u>
	<u><u>\$ 341,000</u></u>

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick/vacation time. The dollar amounts of these vested rights including related payroll taxes, which have been recorded in the government-wide financial statements, amounted to \$1,089,541 at June 30, 2014.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Installment Loan Agreements are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 646,197	\$ 109,566	\$ 863,842	\$ 426,552
2016	637,500	94,398	925,129	407,263
2017	715,032	77,146	947,208	385,837
2018	627,893	59,662	982,108	363,440
2019	640,000	40,062	1,002,406	340,105
2020-2024	1,130,000	32,681	3,895,019	1,370,216
2025-2029	-	-	4,354,813	779,300
2030-2034	-	-	2,623,687	216,635
2035-2036	-	-	317,110	4,614
	<u>\$ 4,396,622</u>	<u>\$ 413,515</u>	<u>\$ 15,911,322</u>	<u>\$ 4,293,962</u>

Advance Refunding - Prior

During 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 account's assets and liabilities for the defeased bonds are not included in the basic financial statements. As of June 30, 2014, \$5,355,000 of bonds outstanding are considered defeased.

Water and Sewer Obligations

The City of Fraser participates in the Oakland-Macomb Interceptor Drainage District (OMID) as well as the North Gratiot Interceptor Drainage District (NGID). These programs are financed by general obligation bonds issued by Macomb County where the City of Fraser is only responsible for a portion of these general obligation bonds. The City of Fraser has contracts with Macomb County for the cost of the construction of the water and sewer systems within its boundaries. The City of Fraser has pledged the full faith and credit of the City to the prompt payment of the City's share of the principal and interest payments on these contracts as they become due. From information received from Macomb County, the assets relating to those contracts have been recorded in the Water and Sewer Fund of the City to reflect the actual construction cost of the above mentioned systems. The contract principal portion owed by the City of Fraser has been recorded in the Water and Sewer Fund.

NOTE G: DEFINED BENEFIT RETIREMENT PLAN

Plan Administration

The City maintains a defined benefit retirement plan consisting of the following groups: public safety, Department of Public Works, management employees, office and clerical workers, dispatchers, and supervisors. Each 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 Retirement Board. The Retirement Board consists of 11 members which include: the City Manager, City Finance Director, three (3) employees and/or former employees appointed by the City Manager, an employee representative from the Fraser POAM Unit, an employee representative from the Fraser FOP Unit, an employee representative from the Fraser DPW Unit, an employee representative from the Fraser OCW Unit, and an employee representative from the Fraser Supervisor's Unit. The City Manager and City Finance Director may appoint an alternate trustee to attend any meeting on their behalf. The consolidated plan does not issue a separate report.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED

Plan Membership

At June 30, 2014, pension plan membership consisted of the following:

Active members	65
Retired members receiving benefits	91
Vested inactive members	<u>18</u>
	<u><u>174</u></u>

Benefits Provided

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, 2013, the date of the most recent actuarial valuation, public safety membership consisted of 42 retirees and beneficiaries currently receiving benefits and 40 current active employees.

Department of Public Works - The plan covers all full-time Department of Public Works employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2013, the date of the most recent actuarial valuation, public works membership consisted of 11 retirees currently receiving benefits, five terminated employees entitled to benefits but not yet receiving them, and 9 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, 2013, the date of the most recent actuarial valuation, management membership consisted of 13 retirees and beneficiaries currently receiving benefits and four terminated employees entitled to benefits but not yet receiving them.

Office, Clerical, and Court Workers - The plan covers all full-time office, clerical, and 35th District Court 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, 2013, the date of the most recent actuarial valuation, office and clerical membership consisted of 11 retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 10 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, 2013, the date of the most recent actuarial valuation, dispatcher membership consisted of one retiree currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and four 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, 2013, the date of the most recent actuarial valuation, supervisors' membership consisted of 16 retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and one current active employee.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED

Contributions

The obligation to contribute to and maintain the system for these employees was established and may be amended by the City Council and by negotiation with the City's collective bargaining units. Administrative costs of the plan are financed through investment earnings. The following are required employee contributions under the collective bargaining agreements:

Public safety	6.00%
Department of Public Works	6.00%
Office and clerical	6.00%
Dispatchers	6.00%

Effective July 1, 2014, the required employee contributions for the classes of employees above will increase to 7.0 percent. Management and supervisors are not covered under collective bargaining agreements. Management and supervisors are required to contribute 2.0 percent and 3.0 percent to 3.7 percent, respectively.

The City's annual required contributions are actuarially determined. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

The estimated annual required contribution was determined as part of an actuarial valuation at June 30, 2013, using the entry-age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return (b) payroll was assumed to grow by 4.0 percent per year for the Office, Clerical and 35th District Court group and by 5.0 percent per year for all other groups. The City's average contribution rate was 34.81 percent of annual payroll.

Investment Policy

The Retirement Board may invest and reinvest the assets of the Plan subject to the terms, conditions, limitations, and restrictions imposed by Michigan law, and to the extent applicable to a government plan, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. It is the policy of the Plan to invest funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security.

The asset allocation for each major asset class that is included in the pension plan's target asset allocation as of June 30, 2013, the date of the most recent actuarial valuation, are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Domestic Fixed Income	34.00%	5.25%
International Fixed Income	2.00%	4.75%
Domestic Equity	44.00%	7.25%
International Equity	15.00%	8.75%
Real Estate	5.00%	6.75%
Total	<u>100.00%</u>	

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.35 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the change in amounts actually invested.

Annual Pension Cost

The annual pension cost and net pension asset for the year ending June 30, 2014, are as follows:

Annual required contribution (ARC)	\$ 1,923,228
Interest on net pension asset	(208)
Adjustment to annual required contribution	<u>147</u>
Annual net pension cost	1,923,167
Amounts contributed:	
Annual contributions	<u>(1,531,588)</u>
Increase in net pension obligation (asset)	391,579
Restated net pension obligation (asset) - beginning of year	<u>(2,595)</u>
Net pension obligation - end of year	<u><u>\$ 388,984</u></u>

The actuarial value of assets was determined using techniques the 5-year smoothed market method. The unfunded actuarial liability is being amortized as a level percentage of payroll over a closed period of twenty-eight (28) years.

Three-Year Trend Information

	Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual pension cost (APC)	\$ 1,690,105	\$ 1,785,620	\$ 1,923,167
Percentage of APC contributed	108.1%	89.8%	79.6%
Net pension obligation (asset)	\$ (183,886)	\$ (2,595)	\$ 388,984

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED

Annual Pension Cost - Continued

Funded Status

The funded status of the Plan, as of the most recent actuarial valuations, was as follows:

	Year Ended June 30,		
	2011	2012	2013
Actuarial value of assets	\$ 25,354,191	\$ 24,705,967	\$ 24,396,731
Actuarial accrued liability (AAL) (entry age)	46,667,079	48,665,808	53,081,473
Unfunded AAL (UAAL)	21,312,888	23,959,841	28,684,742
Funded ratio	54%	51%	46%
Annual covered payroll	\$ 5,359,314	\$ 5,019,570	\$ 5,233,717
UAAL as a percentage of covered payroll	398%	477%	548%

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 and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and 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 method 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2013 Actuarially determined contribution amounts are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.
Actuarial cost method	Individual entry age normal
Amortization method	Level percent of pay
Remaining amortization period	26 years (closed) as of valuation date
Asset valuation method	5-Year smoothed market value
Inflation	5.00% (4.00% was used for Office, Clerical, and 39th District Court Workers)
Cost of living assumption adjustments	10.00% on 5th and 10th anniversaries after retirement (Public Safety, non-command only)
Salary increases	4.00% - 5.00%
Investment rate of return	8.00%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality rates	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2010 using projection scale BB for both males and females.

The actuarial assumptions used in the June 30, 2014, valuation were based on an actuarial valuation performed as of June 30, 2013, with a measurement date of June 30, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 8.0 percent long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projection of Cash Flows

The projection of cash flows used to determine the single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2110, based on the June 30, 2014, actuarial valuation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: DEFINED BENEFIT RETIREMENT PLAN - CONTINUED

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the City's net pension liability, calculated using the discount rate of 8.0 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percent lower (7.0 percent) or 1 percent higher (9.0 percent) than the current rate:

	<u>1% Decrease of Rate to 7.0%</u>	<u>Current Discount Rate of 8.0%</u>	<u>1% Increase of Rate of 9.0%</u>
City's net pension liability	<u>\$ 34,499,557</u>	<u>\$ 28,102,933</u>	<u>\$ 22,693,533</u>

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides certain retiree healthcare and dental benefits to all full-time employees and their spouses upon retirement in accordance with labor contracts. The following are the GASB Statement No. 45 required disclosures.

During the year ended June 30, 2014, 97 retirees (which includes active employees, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits) were eligible to receive benefits. Expenditures for post-employment benefits are recognized when claims are paid.

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

Funding Policy

The collective bargaining agreements do not require contributions from employees. The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. The amount of the annual required contribution is reflected in the schedule that follows.

Funding Progress

For the year ended June 30, 2014, the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of June 30, 2012. 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 to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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

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

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

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

The funding progress of the plan as is as follows:

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUEDActuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions 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 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 City 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, 2012 actuarial valuation the entry age normal cost method was used. The actuarial assumptions include a 3.0 percent per year rate of investment return (net of administrative expenses, which is the expected long-term investment returns on plan assets, and an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate 3.0 percent after ten (10) years. Both rates include a 3.0 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 as a level dollar on a closed basis. The remaining amortization period at June 30, 2014, was twenty-four (24) years.

NOTE I: SEGMENT INFORMATION

The City reports pension trust funds for the activities of the Employees' Retirement System and the Other Post-Employment Benefits Trust Fund. Segment information as of and for the year ended June 30, 2014, is as follows:

	Employees' Retirement System	Other Post- Employment Benefits	Total
Additions			
Employer contributions	\$ 1,531,588	\$ -	\$ 1,531,588
Employee contributions	273,318	-	273,318
Net investment income	3,914,539	-	3,914,539
Deductions			
Benefit payments	2,845,047	-	2,845,047
Administrative expenses	49,193	45,000	94,193
Change in net position	2,825,205	(45,000)	2,780,205
Total assets	27,566,812	7,938	27,574,750
Net position	27,566,812	7,938	27,574,750

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE J: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy period exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The City has not been informed of any special assessments being required.

The City is exposed to various risks of loss for liability, property, inland marine, crime, automobile, law enforcement liability, public officials, excess liability, and employer liability for which the City carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years.

During fiscal year 2013, the City participated in a self-insured prescription coverage program through a third-party service provider. During the prior year, the City determined not to continue this self-insured plan and the program went through a final audit to ensure that all claims have been paid. During the year ended June 30, 2014, the City received a return of their deposit of \$11,300.

NOTE K: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established 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. The following are the five (5) classifications of fund balance under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

The formal action that is required to be taken to establish a fund balance commitment is the adoption of a City ordinance.

For assigned fund balance, the City of Fraser has not approved a policy indicating who is authorized to assign amounts to a specific purpose, therefore the authority for assigning fund balance remains with City Council.

The City of Fraser has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE L: FUND DEFICIT

The following fund had a deficit fund balance at June 30, 2014:

<u>Fund</u>	<u>Deficit</u>
PRIMARY GOVERNMENT	
Governmental Funds	
Debt Service Funds	
General Obligation Fund	\$ (38,060)

NOTE M: CONSTRUCTION CODE ACTIVITY

In accordance with Michigan Public Act 245 of 1999, the City is required to maintain a separate accounting system that separately accumulates revenues and expenditures related to the building department function.

As required under provisions of the Act, the City adopted this accounting treatment effective January 1, 2000. The following is a summary of the activity for the year ended June 30, 2014:

REVENUES	
Permits	\$ 48,341
EXPENDITURES	
Salaries and fringe benefits	199,960
Supplies and other	<u>21,521</u>
TOTAL EXPENDITURES	<u>221,481</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(173,140)
PRIOR CUMULATIVE EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(304,863)</u>
CUMULATIVE EXCESS OF REVENUES (UNDER) EXPENDITURES	<u><u>\$ (478,003)</u></u>

NOTE N: CONTINGENT LIABILITIES

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.

At times, the City may be a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City and its attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE N: CONTINGENT LIABILITIES - CONTINUED

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

NOTE O: CHANGE IN ACCOUNTING PRINCIPLES

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

NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS

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

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

NOTE Q: RESTATEMENT OF BEGINNING NET POSITION

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

NOTE R: SUBSEQUENT EVENTS

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

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

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE R: SUBSEQUENT EVENTS - CONTINUED

On November 4, 2014, the City voters approved a bond proposal for the City to borrow a principal sum not to exceed \$5,135,000 and issue its general obligation unlimited tax bonds payable over a period not to exceed five years and six months from date of issuance. The estimated millage to be levied in 2015 is 1.9770 mills and the estimated simple average annual millage rate required to retire the bonds is 1.9996 mills.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fraser

General Fund

BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)

Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 8,703,157	\$ 8,723,282	\$ 8,531,071	\$ (192,211)
Licenses and permits				
Franchise fees	132,000	132,000	133,676	1,676
Other	185,250	185,250	133,959	(51,291)
Total license and permits	317,250	317,250	267,635	(49,615)
Intergovernmental				
Federal	11,500	11,500	18,321	6,821
State	1,362,954	1,362,954	1,350,233	(12,721)
District Court and Violations Bureau	842,600	842,600	843,816	1,216
Total intergovernmental	2,217,054	2,217,054	2,212,370	(4,684)
Charges for services	147,000	147,000	138,514	(8,486)
Fines and forfeitures	134,000	164,000	106,915	(57,085)
Interest and rents	119,500	119,500	122,363	2,863
Other				
Library	6,750	6,750	9,476	2,726
Miscellaneous	452,180	506,715	368,926	(137,789)
Total other	458,930	513,465	378,402	(135,063)
TOTAL REVENUES	12,096,891	12,201,551	11,757,270	(444,281)
EXPENDITURES				
Current				
General government				
City Council	77,047	82,172	85,427	(3,255)
City administration	199,733	199,733	197,471	2,262
City clerk	168,269	168,269	137,928	30,341
District Court	665,507	665,507	651,561	13,946
Finance	250,463	250,463	268,740	(18,277)
Assessor	164,686	146,686	137,308	9,378
Legal	50,000	68,000	65,390	2,610
Building and grounds	414,364	414,364	428,273	(13,909)
Total general government	1,990,069	1,995,194	1,972,098	23,096
Public safety	6,096,097	6,118,097	5,993,808	124,289

City of Fraser

General Fund

BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS) - CONTINUED

Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
Current - continued				
Public works				
Building inspections	\$ 235,928	\$ 235,928	\$ 223,629	\$ 12,299
Other	521,422	521,422	539,837	(18,415)
Total public works	757,350	757,350	763,466	(6,116)
Community and economic development				
Planning committee	23,353	23,353	19,561	3,792
Recreation and culture				
City parks and recreation	364,253	369,253	370,551	(1,298)
Historical commission	1,500	1,500	1,770	(270)
Library	354,549	354,549	348,247	6,302
Total recreation and culture	720,302	725,302	720,568	4,734
Other				
Insurance	172,500	172,500	171,304	1,196
Retiree health insurance contributions	1,550,000	1,700,000	1,839,555	(139,555)
Refunds and reimbursements	212,500	285,035	262,908	22,127
Total other	1,935,000	2,157,535	2,273,767	(116,232)
Debt service	-	-	15,437	(15,437)
TOTAL EXPENDITURES	11,522,171	11,776,831	11,758,705	18,126
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	574,720	424,720	(1,435)	(426,155)
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	(599,720)	(599,720)	(591,079)	8,641
TOTAL OTHER FINANCING SOURCES (USES)	(574,720)	(574,720)	(591,079)	(16,359)
Net change in fund balance (budgetary basis)	\$ -0-	\$ (150,000)	\$ (592,514)	\$ (442,514)

City of Fraser

Consolidated Retirement System

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll [(b-a)/c]
2004	\$ 20,898,722	\$ 33,433,540	\$ 12,534,818	63%	\$ 6,226,887	201%
2005	20,665,129	35,628,009	14,962,880	58%	5,984,715	250%
2006	22,404,843	37,425,616	15,020,773	60%	6,020,985	249%
2007	24,446,647	38,753,657	14,307,010	63%	5,995,408	239%
2008	25,738,595	40,814,234	15,075,639	63%	6,369,746	237%
2009	25,680,593	42,852,937	17,172,344	60%	5,966,282	288%
2010	25,659,474	45,195,585	19,536,111	57%	5,488,321	356%
2011	25,354,191	46,667,079	21,312,888	54%	5,359,314	398%
2012	24,705,967	48,665,808	23,959,841	51%	5,019,570	477%
2013	24,396,731	53,081,473	28,684,742	46%	5,233,717	548%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation (Asset)
2005	\$ 1,261,147	98.2%	\$ (451,278)
2006	1,501,208	95.6%	(385,124)
2007	1,755,957	99.5%	(375,390)
2008	1,697,221	100.5%	(383,934)
2009	1,643,743	99.3%	(373,001)
2010	1,598,709	99.8%	(369,203)
2011	1,698,599	80.0%	(46,339)
2012	1,691,326	108.1%	(183,886)
2013	1,790,213	89.6%	(2,595)
2014	1,923,228	79.6%	388,984

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2013, the date of the latest actuarial valuation, is as follows:

Actuarial cost method	Individual Entry Age
Amortization method	Level Percent of Pay
Remaining amortization period	26 years closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.0%-5.0%
Payroll growth	5.0%
Includes inflation at cost-of-living adjustments	10.0% on 5th and 10th anniversaries
Post-retirement benefit increases	None

City of Fraser

Consolidated Retirement System

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Last Fiscal Year

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

City of Fraser
Consolidated Retirement System
SCHEDULE OF CITY CONTRIBUTIONS
Last Fiscal Year

	2014
Actuarially determined contribution	\$ 1,923,228
Actual contribution	1,531,586
Contribution excess (deficiency)	\$ (391,642)
Covered-employee payroll	\$ 5,092,610
Actual contribution as a percentage employee payroll	30.07%

NOTES TO SCHEDULE OF CITY CONTRIBUTIONS

Valuation date	June 30, 2013 Actuarially determined contribution amounts are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.
Actuarial cost method	Individual entry age normal
Amortization method	Level percent of pay
Remaining amortization period	26 years (closed) as of valuation date
Asset valuation method	5-Year smoothed market value
Inflation	5.00% (4.00% was used for Office, Clerical, and 39th District Court Workers)
Cost of living assumption adjustments	10.00% on 5th and 10th anniversaries after retirement (Public Safety, non-command only)
Salary increases	4.00% - 5.00%
Investment rate of return	8.00%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality rates	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2010 using projection scale BB for both males and females.

City of Fraser
Consolidated Retirement System
SCHEDULE OF INVESTMENT RETURNS
Last Fiscal Year

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	15.35%

City of Fraser

Other Post-Employment Benefits

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year ended June 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll [(b-a)/c]
2006	\$ 340,018	\$ 49,708,098	\$ 49,368,080	0.7%	\$ 6,020,985	819.9%
2009	677,886	58,822,957	58,145,071	1.2%	5,966,282	974.6%
2012	416,750	68,263,560	67,846,810	0.6%	4,955,687	1369.1%

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Cost	Annual Actual Contribution	Percent Contributed
2012	\$ 5,295,140	\$ 1,573,765	29.7%
2013	5,424,148	1,646,797	30.4%
2014	4,653,906	1,839,555	39.5%

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2012, the date of the latest actuarial valuation, is as follows:

Valuation date	June 30, 2012
Actuarial cost method	Individual Entry Age
Amortization method	Level Dollar
Remaining amortization period	24
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	3.00%
Projected salary increases	3.00%

City of Fraser

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

The City's budgeted expenditures for the General Fund have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2014, the City incurred expenditures in the General Fund, Local Streets Fund, and Gambling Forfeiture Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
General government			
City Council	\$ 82,172	\$ 85,427	\$ 3,255
Finance	250,463	268,740	18,277
Building and grounds	414,364	428,273	13,909
Public Works			
Other	521,422	539,837	18,415
Recreation and culture			
City parks and recreation	369,253	370,551	1,298
Historical commission	1,500	1,770	270
Other			
Retiree health insurance contributions	1,700,000	1,839,555	139,555
Debt service	-	15,437	15,437
Local Streets Fund	466,878	538,231	71,353
Gambling Forfeiture Fund	451,291	471,397	20,106

NOTE B: BUDGET RECONCILIATION

The actual amounts in the budgetary comparison schedules (non-GAAP budgetary basis) are presented on the same basis of accounting used in preparing the adopted budget. In addition, the City of Fraser budgets the activities of the Garbage Collection Fund separately from the General Fund. For financial statement purposes and the GAAP-basis basic financial statements, however, the activities of the above mentioned fund are combined with the General Fund.

Net change in General Fund fund balance (budgetary basis)	\$ (592,514)
Garbage Collection Fund	
Charges for services	96,904
Transfers in from other funds	573,984
Public works expenditures	<u>(670,888)</u>
Net change in General Fund fund balance (GAAP basis)	<u>\$ (592,514)</u>

OTHER SUPPLEMENTARY INFORMATION

City of Fraser

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2014

	Special Revenue			
	Major Streets Fund	Local Streets Fund	Ambulance Fund	Gambling Forfeiture Fund
ASSETS				
Cash and cash equivalents	\$ 263,869	\$ -	\$ 185,678	\$ 123,861
Investments	-	-	-	100,012
Accounts receivable	-	-	120	-
Due from other governmental units	88,430	38,131	9,739	16,921
Due from other funds	-	-	139,416	912,508
Prepays	1,202	1,080	440	-
TOTAL ASSETS	\$ 353,501	\$ 39,211	\$ 335,393	\$ 1,153,302
LIABILITIES				
Accounts payable	\$ 13,365	\$ 2,732	\$ 2,352	\$ 4,290
Accrued liabilities	1,421	3,087	641	-
Due to other governmental units	-	-	-	-
Due to other funds	-	33,392	-	448,940
TOTAL LIABILITIES	14,786	39,211	2,993	453,230
FUND BALANCES (DEFICIT)				
Nonspendable				
Prepays	1,202	1,080	440	-
Restricted				
Streets and highways	337,513	-	-	-
Health and welfare	-	-	331,960	-
Public safety	-	-	-	700,072
Unassigned	-	(1,080)	-	-
TOTAL FUND BALANCES (DEFICIT)	338,715	-0-	332,400	700,072
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 353,501	\$ 39,211	\$ 335,393	\$ 1,153,302

Funds	Debt Service Funds			Capital	Total
	General Obligation Fund	Motor Vehicle Highway Fund	Special Assessment Fund	Projects Fund Special Assessments Fund	
\$ 91,421	\$ -	\$ -	\$ 31,291	\$ -	\$ 696,120
354,430	-	-	-	-	454,442
-	-	-	-	-	120
-	-	-	-	-	153,221
-	-	72,857	-	-	1,124,781
-	-	-	-	-	2,722
<u>\$ 445,851</u>	<u>\$ -0-</u>	<u>\$ 72,857</u>	<u>\$ 31,291</u>	<u>\$ -0-</u>	<u>\$ 2,431,406</u>
\$ 1,766	\$ -	\$ -	\$ -	\$ -	\$ 24,505
832	-	-	-	-	5,981
-	-	-	2,233	-	2,233
117,820	38,060	72,857	-	-	711,069
120,418	38,060	72,857	2,233	-0-	743,788
-	-	-	-	-	2,722
-	-	-	-	-	337,513
-	-	-	-	-	331,960
325,433	-	-	-	-	1,025,505
-	(38,060)	-	29,058	-	(10,082)
<u>325,433</u>	<u>(38,060)</u>	<u>-0-</u>	<u>29,058</u>	<u>-0-</u>	<u>1,687,618</u>
<u>\$ 445,851</u>	<u>\$ -0-</u>	<u>\$ 72,857</u>	<u>\$ 31,291</u>	<u>\$ -0-</u>	<u>\$ 2,431,406</u>

City of Fraser

Nonmajor Governmental Funds

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

Year Ended June 30, 2014

	Special Revenue			
	Major Streets Fund	Local Streets Fund	Ambulance Fund	Gambling Forfeiture Fund
REVENUES				
Taxes	\$ -	\$ -	\$ 435,341	\$ -
Intergovernmental - State	537,261	278,817	-	-
Charges for services	-	-	288,439	-
Fines and forfeitures	-	-	-	239,163
Interest	-	-	-	1,148
Other	-	-	-	1,191
TOTAL REVENUES	537,261	278,817	723,780	241,502
EXPENDITURES				
Current				
Public safety	-	-	-	227,396
Public works	374,216	398,824	-	-
Health and welfare	-	-	542,248	-
Capital outlay	74,000	139,407	-	171,144
Debt service	-	-	-	-
TOTAL EXPENDITURES	448,216	538,231	542,248	398,540
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	89,045	(259,414)	181,532	(157,038)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	64,484	-	-
Transfers out	(64,484)	-	-	(72,857)
TOTAL OTHER FINANCING SOURCES (USES)	(64,484)	64,484	-0-	(72,857)
NET CHANGE IN FUND BALANCES	24,561	(194,930)	181,532	(229,895)
Fund balances (deficit), beginning of year	314,154	194,930	150,868	929,967
Fund balances (deficit), end of year	\$ 338,715	\$ -0-	\$ 332,400	\$ 700,072

Funds	Debt Service Funds			Capital Projects Fund	
Drug Forfeiture Fund	General Obligation Fund	Motor Vehicle Highway Fund	Special Assessment Fund	Special Assessments Fund	Total
\$ -	\$ 654,691	\$ -	\$ -	\$ -	\$ 1,090,032
-	-	-	-	-	816,078
-	-	-	-	-	288,439
209,937	-	-	-	-	449,100
1,342	-	-	-	-	2,490
208	-	-	-	-	1,399
211,487	654,691	-0-	-0-	-0-	2,647,538
242,595	-	-	-	-	469,991
-	-	-	-	-	773,040
-	-	-	-	-	542,248
-	-	-	-	605	385,156
-	645,737	92,292	-	-	738,029
242,595	645,737	92,292	-0-	605	2,908,464
(31,108)	8,954	(92,292)	-0-	(605)	(260,926)
-	135,700	92,292	-	-	292,476
-	-	-	-	-	(137,341)
-0-	135,700	92,292	-0-	-0-	155,135
(31,108)	144,654	-	-0-	(605)	(105,791)
356,541	(182,714)	-	29,058	605	1,793,409
<u>\$ 325,433</u>	<u>\$ (38,060)</u>	<u>\$ -0-</u>	<u>\$ 29,058</u>	<u>\$ -0-</u>	<u>\$ 1,687,618</u>

City of Fraser

Nonmajor Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL

Year Ended June 30, 2014

	<u>Major Streets Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - State	\$ 516,315	\$ 516,315	\$ 537,261	\$ 20,946
Interest	3,500	3,500	-	(3,500)
TOTAL REVENUES	519,815	519,815	537,261	17,446
EXPENDITURES				
Current				
Public works				
Salaries and fringe benefits	253,060	253,060	170,578	82,482
Materials and supplies	25,000	20,000	18,569	1,431
Repairs and maintenance	44,712	66,712	66,271	441
Equipment rental	75,000	75,000	75,000	-0-
Other	53,000	48,000	43,798	4,202
Capital outlay	10,000	74,000	74,000	-0-
TOTAL EXPENDITURES	460,772	536,772	448,216	88,556
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	59,043	(16,957)	89,045	106,002
OTHER FINANCING (USES)				
Transfers out	(59,043)	(59,043)	(64,484)	(5,441)
NET CHANGE IN FUND BALANCE	-0-	(76,000)	24,561	100,561
Fund balance, beginning of year	314,154	314,154	314,154	-0-
Fund balance, end of year	<u>\$ 314,154</u>	<u>\$ 238,154</u>	<u>\$ 338,715</u>	<u>\$ 100,561</u>

City of Fraser

Nonmajor Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - CONTINUED

Year Ended June 30, 2014

	<u>Local Streets Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - State	\$ 229,060	\$ 259,060	\$ 278,817	\$ 19,757
Interest	500	500	-	(500)
TOTAL REVENUES	229,560	259,560	278,817	19,257
EXPENDITURES				
Current				
Public works				
Salaries and fringe benefits	137,669	137,669	220,189	(82,520)
Materials and supplies	25,000	25,000	31,787	(6,787)
Repairs and maintenance	43,479	81,479	71,070	10,409
Equipment rental	75,000	75,000	75,000	-0-
Other	2,455	2,455	778	1,677
Capital outlay	5,000	145,275	139,407	5,868
TOTAL EXPENDITURES	288,603	466,878	538,231	(71,353)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(59,043)	(207,318)	(259,414)	(52,096)
OTHER FINANCING SOURCES				
Transfers in	59,043	59,043	64,484	5,441
NET CHANGE IN FUND BALANCE	-0-	(148,275)	(194,930)	(46,655)
Fund balance, beginning of year	194,930	194,930	194,930	-0-
Fund balance, end of year	\$ 194,930	\$ 46,655	\$ -0-	\$ (46,655)

City of Fraser

Nonmajor Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - CONTINUED

Year Ended June 30, 2014

	<u>Ambulance Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 438,239	\$ 438,239	\$ 435,341	\$ (2,898)
Charges for services	270,000	270,000	288,439	18,439
Other	500	500	-	(500)
TOTAL REVENUES	708,739	708,739	723,780	15,041
EXPENDITURES				
Current				
Health and welfare				
Salaries and fringe benefits	586,956	586,956	475,101	111,855
Materials and supplies	14,250	14,250	12,816	1,434
Equipment rental	26,520	26,520	26,520	-0-
Professional services	22,600	22,600	27,811	(5,211)
TOTAL EXPENDITURES	650,326	650,326	542,248	108,078
NET CHANGE IN FUND BALANCE	58,413	58,413	181,532	123,119
Fund balance, beginning of year	150,868	150,868	150,868	-0-
Fund balance, end of year	<u>\$ 209,281</u>	<u>\$ 209,281</u>	<u>\$ 332,400</u>	<u>\$ 123,119</u>

City of Fraser

Nonmajor Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - CONTINUED

Year Ended June 30, 2014

Gambling Forfeiture Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines and forfeitures	\$ 95,000	\$ 95,000	\$ 239,163	\$ 144,163
Interest	5,000	5,000	1,148	(3,852)
Other	7,200	7,200	1,191	(6,009)
TOTAL REVENUES	107,200	107,200	241,502	134,302
EXPENDITURES				
Current				
Public safety				
Salaries and fringe benefits	2,883	-	-	-0-
Materials and supplies	36,920	174,803	227,018	(52,215)
Professional services	5,500	500	378	122
Other	5,000	-	-	-0-
Capital outlay	77,200	203,130	171,144	31,986
TOTAL EXPENDITURES	127,503	378,433	398,540	(20,107)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(20,303)	(271,233)	(157,038)	114,195
OTHER FINANCING (USES)				
Transfers out	(72,858)	(72,858)	(72,857)	1
NET CHANGE IN FUND BALANCE	(93,161)	(344,091)	(229,895)	114,196
Fund balance, beginning of year	929,967	929,967	929,967	-0-
Fund balance, end of year	\$ 836,806	\$ 585,876	\$ 700,072	\$ 114,196

City of Fraser

Nonmajor Special Revenue Funds

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - CONTINUED

Year Ended June 30, 2014

Drug Forfeiture Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines and forfeitures	\$ 231,929	\$ 256,929	\$ 209,937	\$ (46,992)
Interest	500	500	1,342	842
Other	500	500	208	(292)
TOTAL REVENUES	232,929	257,929	211,487	(46,442)
EXPENDITURES				
Current				
Public safety				
Salaries and fringe benefits	61,885	61,885	60,500	1,385
Materials and supplies	97,170	122,170	175,754	(53,584)
Repairs and maintenance	27,574	27,574	2,430	25,144
Professional services	15,000	15,000	3,911	11,089
Capital outlay	31,300	31,300	-	31,300
TOTAL EXPENDITURES	232,929	257,929	242,595	15,334
NET CHANGE IN FUND BALANCE	-0-	-0-	(31,108)	(31,108)
Fund balance, beginning of year	356,541	356,541	356,541	-0-
Fund balance, end of year	\$ 356,541	\$ 356,541	\$ 325,433	\$ (31,108)

City of Fraser

Fiduciary Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2014

	<u>Public Safety</u>	<u>Management Employees</u>	<u>Department of Public Works</u>
ASSETS			
Cash and investments	\$ 17,505,550	\$ 306,077	\$ 4,215,175
LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Held in trust for pension and other post-employment benefits	<u>\$ 17,505,550</u>	<u>\$ 306,077</u>	<u>\$ 4,215,175</u>

<u>Office and Clerical Workers</u>	<u>Dispatchers</u>	<u>Supervisors</u>	<u>Total Pension Trust Fund</u>	<u>Retiree Health Care Trust Fund</u>	<u>Total</u>
\$ 2,944,498	\$ 1,179,377	\$ 1,416,135	\$ 27,566,812	\$ 7,938	\$ 27,574,750
-	-	-	-0-	-	-0-
<u>\$ 2,944,498</u>	<u>\$ 1,179,377</u>	<u>\$ 1,416,135</u>	<u>\$ 27,566,812</u>	<u>\$ 7,938</u>	<u>\$ 27,574,750</u>

City of Fraser

Fiduciary Funds

COMBINING STATEMENT OF CHANGES IN NET POSITION

Year Ended June 30, 2014

	<u>Public Safety</u>	<u>Management Employees</u>	<u>Department of Public Works</u>
ADDITIONS			
Investment income			
Interest and dividends	\$ 321,042	\$ 9,648	\$ 76,584
Net appreciation in fair value of investments	2,207,870	66,556	526,679
Investment related expenses	<u>(59,911)</u>	<u>(1,839)</u>	<u>(14,279)</u>
Net investment income	2,469,001	74,365	588,984
Contributions			
Employer	961,394	-	207,693
Employee	<u>197,707</u>	<u>-</u>	<u>34,254</u>
Total contributions	<u>1,159,101</u>	<u>-0-</u>	<u>241,947</u>
TOTAL ADDITIONS	3,628,102	74,365	830,931
DEDUCTIONS			
Benefit payments	1,625,625	382,227	286,043
Administrative expenses	<u>30,981</u>	<u>1,020</u>	<u>7,375</u>
TOTAL DEDUCTIONS	<u>1,656,606</u>	<u>383,247</u>	<u>293,418</u>
CHANGE IN NET POSITION	1,971,496	(308,882)	537,513
Net position, beginning of year	<u>15,534,054</u>	<u>614,959</u>	<u>3,677,662</u>
Net position, end of year	<u>\$ 17,505,550</u>	<u>\$ 306,077</u>	<u>\$ 4,215,175</u>

<u>Office and Clerical Workers</u>	<u>Dispatchers</u>	<u>Supervisors</u>	<u>Total Pension Trust Fund</u>	<u>Retiree Health Care Trust Fund</u>	<u>Total</u>
\$ 52,086	\$ 20,288	\$ 29,367	\$ 509,015	\$ -	\$ 509,015
357,864	139,375	202,190	3,500,534	-	3,500,534
<u>(9,697)</u>	<u>(3,776)</u>	<u>(5,508)</u>	<u>(95,010)</u>	<u>-</u>	<u>(95,010)</u>
400,253	155,887	226,049	3,914,539	-0-	3,914,539
224,039	115,385	23,077	1,531,588	-	1,531,588
<u>23,793</u>	<u>15,035</u>	<u>2,529</u>	<u>273,318</u>	<u>-</u>	<u>273,318</u>
<u>247,832</u>	<u>130,420</u>	<u>25,606</u>	<u>1,804,906</u>	<u>-0-</u>	<u>1,804,906</u>
648,085	286,307	251,655	5,719,445	-0-	5,719,445
137,989	36,703	376,460	2,845,047	-	2,845,047
<u>4,980</u>	<u>1,929</u>	<u>2,908</u>	<u>49,193</u>	<u>45,000</u>	<u>94,193</u>
<u>142,969</u>	<u>38,632</u>	<u>379,368</u>	<u>2,894,240</u>	<u>45,000</u>	<u>2,939,240</u>
505,116	247,675	(127,713)	2,825,205	(45,000)	2,780,205
<u>2,439,382</u>	<u>931,702</u>	<u>1,543,848</u>	<u>24,741,607</u>	<u>52,938</u>	<u>24,794,545</u>
<u>\$ 2,944,498</u>	<u>\$ 1,179,377</u>	<u>\$ 1,416,135</u>	<u>\$ 27,566,812</u>	<u>\$ 7,938</u>	<u>\$ 27,574,750</u>

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the City), as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

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

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

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

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

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

CAPITAL ASSET RECORDS

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

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

COURT BOND RECONCILIATION

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

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

Compliance and Other Matters

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

BUDGET VARIANCES

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

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

FUND DEFICIT

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

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

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

UNCLAIMED PROPERTY

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

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

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 30, 2014