

**CITY OF FRASER  
MACOMB COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2018**

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the 'City'), as of and for the year ended June 30, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, 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.

### ***Emphasis of Matter***

As described in Note 14 to the financial statements, during the year ended June 30, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of implementing this pronouncement, the City's net OPEB liability has been recognized on the government-wide and proprietary fund statements and, as discussed in Note 14, the 2018 financial statements have been restated. Our opinion is 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, the budgetary comparison information, and the pension and OPEB schedules, as listed 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 and the combining internal service fund 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 and the combining internal service 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 and the combining internal service fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge and Company". The signature is written in dark ink and is positioned above the typed name of the firm.

Gabridge and Company, PLC  
Grand Rapids, Michigan  
December 27, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**City of Fraser**  
**Management's Discussion and Analysis**  
**June 30, 2018**

As management for the City of Fraser, Michigan (the "City" or "government"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

**Financial Highlights**

- The liabilities and deferred inflows of the City exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$35,176,106 (deficit net position).
- The City's total net position increased by \$3,078,378 during the year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,634,216, an increase of \$2,228,380 across all funds. Approximately 48 percent of this total amount, or \$3,683,096, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,683,096, or 28 percent of total General Fund expenditures. The increase in fund balance was \$1,789,773 for the General Fund during the year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's 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 themselves.

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

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most 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 (e.g., earned but unused vacation leave and long-term debt obligations).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*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 include general government, public safety, public works, health and welfare, culture and recreation, and community and economic development. The business-type activities of the City include water and sewer as well as senior housing.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Fraser Public Library (the “Library”), a legally separate entity for which the City is financially accountable. Financial information for the *component unit* is reported separately from the financial information presented for the primary government itself. The Library does not have a separately issued audit report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**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. Such information may be useful in evaluating a government’s near-term financing requirements.

Because 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. 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.

The City adopts an annual appropriated budget for its General and special revenue funds. A A



budgetary comparison schedule has been provided herein to demonstrate compliance with its budget.

**Proprietary funds.** The City 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 uses enterprise funds to account for the water and sewer and the senior housing activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses *internal service funds* to account for its medical self-insurance and motor pool activities. The internal service funds have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund which is considered to be a major fund of the City. Conversely, nonmajor enterprise funds and internal service funds are combined into single, aggregate presentations in the proprietary fund financial statements.

**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's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents the combining statements referred to earlier in connection with nonmajor and internal service funds, budgetary comparison, and pension / OPEB schedules.

### **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, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$35,176,106 at the close of the most recent fiscal year.

The following chart illustrates the composition of net position:

<b>City of Fraser's Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities Activities</b>		<b>Total Primary Government</b>	
	<b>2018</b>	<b>* 2017</b>	<b>2018</b>	<b>* 2017</b>	<b>2018</b>	<b>* 2017</b>
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Cash Equivalents	\$ 8,187,372	\$ 4,799,081	\$ 4,193,987	\$ 3,407,481	\$ 12,381,359	\$ 8,206,562
Restricted Cash and Cash Equivalents	93,088	1,186,066	86,781	86,363	179,869	1,272,429
Accounts Receivable	381,829	419,811	1,859,489	1,746,299	2,241,318	2,166,110
Due from Other Governmental Units	498,961	536,803	73,226	90,596	572,187	627,399
Internal Balances	-	57,907	-	(57,907)	-	-
Prepays	174,925	379,197	11,182	-	186,107	379,197
<b>Total Current Assets</b>	<b>9,336,175</b>	<b>7,378,865</b>	<b>6,224,665</b>	<b>5,272,832</b>	<b>15,560,840</b>	<b>12,651,697</b>
<i>Noncurrent Assets</i>						
Capital Assets not Being Depreciated	5,000,373	7,390,626	2,843,808	3,366,772	7,844,181	10,757,398
Capital Assets Being Depreciated, net	14,065,051	12,232,815	29,055,771	28,039,638	43,120,822	40,272,453
<b>Total Assets</b>	<b>28,401,599</b>	<b>27,002,306</b>	<b>38,124,244</b>	<b>36,679,242</b>	<b>66,525,843</b>	<b>63,681,548</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
OPEB	-	-	-	-	-	-
Pension	4,102,850	5,746,761	559,480	430,117	4,662,330	6,176,878
<b>Total Deferred Outflows of Resources</b>	<b>4,102,850</b>	<b>5,746,761</b>	<b>559,480</b>	<b>430,117</b>	<b>4,662,330</b>	<b>6,176,878</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	295,359	532,152	509,185	585,228	804,544	1,117,380
Accrued Liabilities	235,014	288,823	105,529	25,933	340,543	314,756
Due to Other Governmental Units	2,233	2,233	-	-	2,233	2,233
Unearned Revenue	13,277	59,136	-	19,260	13,277	78,396
Accrued Interest Payable	20,134	29,872	120,572	112,354	140,706	142,226
Current Portion of Compensated Absences	120,498	144,731	11,974	13,324	132,472	158,055
Current Portion of Long-term Debt	1,489,531	1,474,399	1,379,374	1,243,497	2,868,905	2,717,896
<b>Total Current Liabilities</b>	<b>2,176,046</b>	<b>2,531,346</b>	<b>2,126,634</b>	<b>1,999,596</b>	<b>4,302,680</b>	<b>4,530,942</b>
<i>Noncurrent Liabilities</i>						
Net Pension Liability	23,615,983	26,863,743	3,220,361	2,144,643	26,836,344	29,008,386
Net OPEB Liability	45,369,584	27,420,965	8,006,397	2,976,084	53,375,981	30,397,049
Compensated Absences	627,189	764,149	21,391	25,288	648,580	789,437
Long-term Debt	2,557,562	4,047,093	17,314,064	16,879,948	19,871,626	20,927,041
<b>Total Liabilities</b>	<b>74,346,364</b>	<b>61,627,296</b>	<b>30,688,847</b>	<b>24,025,559</b>	<b>105,035,211</b>	<b>85,652,855</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension and OPEB	1,156,384	-	172,684	-	1,329,068	-
<b>Total Deferred Inflows of Resources</b>	<b>1,156,384</b>	<b>-</b>	<b>172,684</b>	<b>-</b>	<b>1,329,068</b>	<b>-</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	15,111,163	15,279,918	13,119,360	13,282,965	28,230,523	28,562,883
Restricted	3,828,682	3,444,585	86,781	86,363	3,915,463	3,530,948
Unrestricted	(61,938,144)	(47,602,732)	(5,383,948)	(285,528)	(67,322,092)	(47,888,260)
<b>Total Net Position</b>	<b>\$ (42,998,299)</b>	<b>\$ (28,878,229)</b>	<b>\$ 7,822,193</b>	<b>\$ 13,083,800</b>	<b>\$ (35,176,106)</b>	<b>\$ (15,794,429)</b>

\* The 2017 balances were not restated in this schedule given that the 2016 figures are not known and application of the restatements could skew results, see Note 14.

The largest portion of the City's net position, \$28,230,523, reflects its investment in capital assets (such as land, buildings, vehicles, equipment, systems, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

An additional portion of the City's net position, \$3,915,463, represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net position, is a deficit of (\$67,322,092). The majority of this deficit can be attributed to the noncurrent liabilities related to the City's pension and OPEB benefit liabilities.

The City's net position increased by \$3,078,378 during the current fiscal year as compared to a decrease of \$3,684,199 for the prior year. The reasons for this overall increase, as well as the reasons for significant changes in the City's assets and liabilities, are discussed in the following sections for governmental activities and business-type activities.

<b>City of Fraser's Changes in Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2018</b>	<b>* 2017</b>	<b>2018</b>	<b>* 2017</b>	<b>2018</b>	<b>* 2017</b>
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 4,098,750	\$ 3,542,557	\$ 9,174,304	\$ 8,776,789	\$ 13,273,054	\$ 12,319,346
Operating Grants and Contributions	1,595,946	1,970,102	-	-	1,595,946	1,970,102
Capital Grants and Contributions	-	-	385,111	175,148	385,111	175,148
<b>Total Program Revenues</b>	<b>5,694,696</b>	<b>5,512,659</b>	<b>9,559,415</b>	<b>8,951,937</b>	<b>15,254,111</b>	<b>14,464,596</b>
<b>General Revenues</b>						
Property Taxes	11,678,598	11,157,530	-	-	11,678,598	11,157,530
Intergovernmental Revenues	1,384,686	1,373,085	-	-	1,384,686	1,373,085
Interest and Other Revenue	115,016	88,046	19,861	147,380	134,877	235,426
<b>Total General Revenues</b>	<b>13,178,300</b>	<b>12,618,661</b>	<b>19,861</b>	<b>147,380</b>	<b>13,198,161</b>	<b>12,766,041</b>
<b>Total Revenues</b>	<b>18,872,996</b>	<b>18,131,320</b>	<b>9,579,276</b>	<b>9,099,317</b>	<b>28,452,272</b>	<b>27,230,637</b>
<b>Expenses</b>						
General Government	2,954,734	3,704,673	-	-	2,954,734	3,704,673
Public Safety	8,151,290	12,347,523	-	-	8,151,290	12,347,523
Public Works	2,593,111	4,097,278	-	-	2,593,111	4,097,278
Health and Welfare	729,322	816,002	-	-	729,322	816,002
Culture and Recreation	887,151	1,221,902	-	-	887,151	1,221,902
Community and Economic Development	42,788	39,714	-	-	42,788	39,714
Interest on Long-term Debt	93,634	15,419	-	-	93,634	15,419
Water and Sewer	-	-	9,622,768	8,278,825	9,622,768	8,278,825
Senior Housing	-	-	299,096	393,500	299,096	393,500
<b>Total Expenses</b>	<b>15,452,030</b>	<b>22,242,511</b>	<b>9,921,864</b>	<b>8,672,325</b>	<b>25,373,894</b>	<b>30,914,836</b>
<b>Change in Net Position</b>	<b>3,420,966</b>	<b>(4,111,191)</b>	<b>(342,588)</b>	<b>426,992</b>	<b>3,078,378</b>	<b>(3,684,199)</b>
<i>Net Position at Beginning of Period</i>	<i>(46,419,265)</i>	<i>(24,767,038)</i>	<i>8,164,781</i>	<i>12,656,808</i>	<i>(38,254,484)</i>	<i>(12,110,230)</i>
<b>Net Position at End of Period</b>	<b>\$(42,998,299)</b>	<b>\$(28,878,229)</b>	<b>\$ 7,822,193</b>	<b>\$ 13,083,800</b>	<b>\$(35,176,106)</b>	<b>\$(15,794,429)</b>

\* The 2017 activities were not restated in this schedule given that the 2016 figures are not known and application of the restatements could skew results, see Note 14.

**Governmental activities.** Governmental activities increased the City's net position by \$3,420,966, as compared to a prior year decrease of \$4,111,191, resulting from the following significant items:

- Property taxes increased from the previous year from \$11,157,530 to \$11,678,598. Millage rates were the same for each of the past two fiscal years for governmental activities. The increase can be attributed to the election of a new millage for public safety during the current year. The City expects property tax revenues to remain at similar levels for the upcoming fiscal year.

- Charges for services increased by \$556,193 in the current year as the City raised multiple fees to cover all costs of providing services. Operating grants and contributions decreased slightly to \$1,595,946.
- Public safety expenses decreased by \$4,196,233 as a result of cost-cutting measures by management to better align services with the existing revenue levels and because of strengthened market performance having a positive influence on the amount of pension and OPEB benefit expenses being allocated to public safety.
- Additional cost-cutting measures by management resulted in the reduction of expenses in the general government functional area, \$749,938, and the public works functional area, \$1,504,167.

**Business-type activities.** Business-type activities decreased the City's net position by \$342,588 as compared to an increase of \$426,992 the prior year. The significant changes amongst the enterprise funds are discussed in the proprietary funds paragraphs in the following section.

### **Financial Analysis of the Government's Funds**

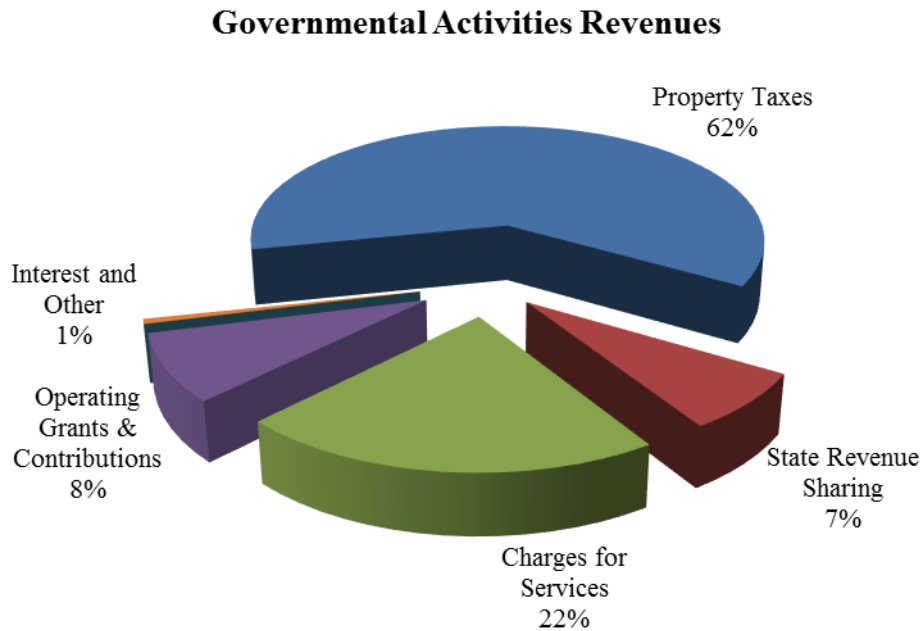
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

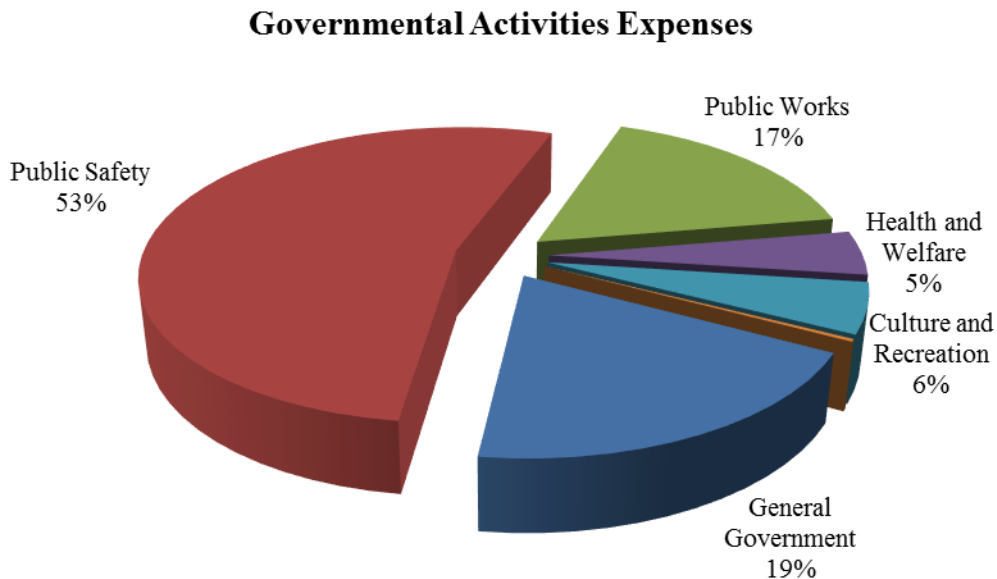
As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,634,216, an increase of \$2,228,380 in comparison with the prior year. Approximately 48% of this total amount, or \$3,683,096, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate the degree to which those monies are available for the identified purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,683,096, while the total fund balance was \$3,805,534. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 28 percent of total General Fund expenditures, while total fund balance represents approximately 29 percent of that same amount.

The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year-end:



**Proprietary funds.** The City’s proprietary funds provide the same type of information found in the business-type activities in the government-wide financial statements, but in more detail.

The total net position for the Water and Sewer Fund for the year ended June 30, 2018 was

\$5,269,907. The total net position is the aggregate of the net investment in capital assets of \$10,679,182, restricted net position of \$86,781, and the deficit in unrestricted fund balance of (\$5,496,056). The primary reason for the deficit in unrestricted net position is due to the noncurrent liabilities for net pension and OPEB.

The total net position in the Water and Sewer Fund decreased by \$603,215 for the year ended June 30, 2018. Increased customer rates brought in an estimated additional \$485,000, while expenses increased an estimated \$1,088,000, primarily because of current year pension charges.

The City reports one nonmajor enterprise fund, the Senior Housing Fund, in addition to the Water and Sewer Fund. The Senior Housing Fund has a total net position of \$2,552,286 for the year ended June 30, 2018. Of the total net position, \$2,440,178, or 96%, represents the fund's net investment in capital assets. The remaining \$112,108 of the total net position is unrestricted to meet the operating demands of the fund.

In the fiscal year ended, the increase in net position was \$260,627 for the Senior Housing Fund, with revenues increasing nearly \$35,000 and operating expenses decreasing almost \$91,000.

### **General Fund Budgetary Highlights**

***Original budget compared to final budget.*** At year-end, budget amendments were made to either increase or decrease various budgeted line-items from their original adopted amounts. Significant amendments to increase the original budget were made to account for additional intergovernmental revenues, charges for services, and retiree health insurance expenditures. The significant amendments to decrease the original budget included line items such as fines and forfeitures, public works expenditures, and city administration expenditures.

***Final budget compared to actual results.*** The City had no expenditures in excess of the amount appropriated during the year.

### **Capital Asset and Debt Administration**

#### ***Capital assets***

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounted to \$50,965,003 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, vehicles, equipment, and infrastructure. Net capital assets for governmental activities decreased (2%), while business-type activities increased by 2%. Overall, total primary government capital assets decreased marginally during the fiscal year.

Following is a summary of the City’s capital assets for each of the past two fiscal year-ends:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Land	\$ 4,938,136	\$ 4,746,356	\$ 837,043	\$ 837,043	\$ 5,775,179	\$ 5,583,399
Construction in Progress	62,237	2,452,490	2,006,765	2,529,729	2,069,002	4,982,219
Land Improvements	1,087,711	643,753	-	-	1,087,711	643,753
Roads and Sidewalks	7,625,752	5,830,506	-	-	7,625,752	5,830,506
County Road Improvements	845,331	302,177	-	-	845,331	302,177
Buildings and Improvements	3,627,009	3,836,953	1,875,178	1,963,942	5,502,187	5,800,895
Vehicles	526,782	836,276	-	-	526,782	836,276
Machinery and Equipment	352,466	470,098	87,478	92,772	439,944	562,870
Water and Sewer Distribution System	-	-	27,093,115	25,982,924	27,093,115	25,982,924
	<u>\$19,065,424</u>	<u>\$19,118,609</u>	<u>\$31,899,579</u>	<u>\$31,406,410</u>	<u>\$50,965,003</u>	<u>\$50,525,019</u>

Significant capital asset additions during the year include the following:

- McKinley Boundless Park \$211,984
- Utica Road \$350,154
- 14 Mile Road \$172,270

Additional information on the City’s capital assets can be found in Note 4 of this report.

### ***Long-term debt***

As of June 30, 2018, the City had \$22,740,531 in total long-term debt outstanding, which is a decrease of \$904,406 compared to the prior year. The total debt is the aggregate of the debt outstanding from both the governmental and business-type activities.

Additional information on the City’s long-term debt can be found in Note 5 of this report.

### **Economic Factors and Future Budgets**

The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In FY2019, the City plans again to use current revenues to provide essential services and to maintain the City’s financial reserves at levels in line with financial policies. The ongoing costs of providing essential services for the citizens of the City continue to grow while revenues remain flat.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Fraser  
City Treasurer  
33000 Garfield Rd  
Fraser, Michigan 48026.



## **BASIC FINANCIAL STATEMENTS**

**City of Fraser**  
**Statement of Net Position**  
**June 30, 2018**

	<b>Primary Government</b>			<b>Component Unit - Library</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 8,187,372	\$ 4,193,987	\$ 12,381,359	\$ 187,912
Restricted Cash and Cash Equivalents	93,088	86,781	179,869	--
Accounts Receivable	381,829	1,859,489	2,241,318	12,539
Due from Other Governmental Units	498,961	73,226	572,187	506
Prepays	174,925	11,182	186,107	542
<b>Total Current Assets</b>	<b>9,336,175</b>	<b>6,224,665</b>	<b>15,560,840</b>	<b>201,499</b>
<i>Noncurrent Assets</i>				
Capital Assets not Being Depreciated	5,000,373	2,843,808	7,844,181	--
Capital Assets Being Depreciated, net	14,065,051	29,055,771	43,120,822	113,162
<b>Total Assets</b>	<b>28,401,599</b>	<b>38,124,244</b>	<b>66,525,843</b>	<b>314,661</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	4,102,850	559,480	4,662,330	--
<b>Total Deferred Outflows of Resources</b>	<b>4,102,850</b>	<b>559,480</b>	<b>4,662,330</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	295,359	509,185	804,544	14,842
Accrued Liabilities	235,014	105,529	340,543	11,262
Due to Other Governmental Units	2,233	--	2,233	17,972
Unearned Revenue	13,277	--	13,277	--
Accrued Interest Payable	20,134	120,572	140,706	--
Current Portion of Compensated Absences	120,498	11,974	132,472	--
Current Portion of Long-term Debt	1,489,531	1,379,374	2,868,905	--
<b>Total Current Liabilities</b>	<b>2,176,046</b>	<b>2,126,634</b>	<b>4,302,680</b>	<b>44,076</b>
<i>Noncurrent Liabilities</i>				
Net Pension Liability	23,615,983	3,220,361	26,836,344	--
Net OPEB Liability	45,369,584	8,006,397	53,375,981	--
Compensated Absences	627,189	21,391	648,580	--
Long-term Debt	2,557,562	17,314,064	19,871,626	--
<b>Total Liabilities</b>	<b>74,346,364</b>	<b>30,688,847</b>	<b>105,035,211</b>	<b>44,076</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	782,515	106,707	889,222	--
OPEB	373,869	65,977	439,846	--
<b>Total Deferred Inflows of Resources</b>	<b>1,156,384</b>	<b>172,684</b>	<b>1,329,068</b>	<b>--</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	15,111,163	13,119,360	28,230,523	113,162
<i>Restricted for:</i>				
Streets and Highways	1,244,209	--	1,244,209	--
Health and Welfare	700,475	--	700,475	--
Public Safety	1,373,182	--	1,373,182	--
Debt Service	510,816	--	510,816	--
Capital Replacement	--	86,781	86,781	--
<i>Unrestricted</i>	(61,938,144)	(5,383,948)	(67,322,092)	157,423
<b>Total Net Position</b>	<b>\$ (42,998,299)</b>	<b>\$ 7,822,193</b>	<b>\$ (35,176,106)</b>	<b>\$ 270,585</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - Library
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
<b>Governmental Activities:</b>								
General Government	\$ 2,954,734	\$ 1,842,250	\$ 3,208	\$ --	\$ (1,109,276)	\$ --	\$ (1,109,276)	\$ --
Public Safety	8,151,290	1,579,172	197,744	--	(6,374,374)	--	(6,374,374)	--
Public Works	2,593,111	183,583	1,264,520	--	(1,145,008)	--	(1,145,008)	--
Health and Welfare	729,322	374,100	40,474	--	(314,748)	--	(314,748)	--
Community and Economic Development	42,788	15,852	--	--	(26,936)	--	(26,936)	--
Recreation and Culture	887,151	103,793	90,000	--	(693,358)	--	(693,358)	--
Interest on Long-term Debt	93,634	--	--	--	(93,634)	--	(93,634)	--
<b>Total Governmental Activities</b>	<b>15,452,030</b>	<b>4,098,750</b>	<b>1,595,946</b>	<b>--</b>	<b>(9,757,334)</b>	<b>--</b>	<b>(9,757,334)</b>	<b>--</b>
<b>Business-type Activities:</b>								
Senior Housing (Nonmajor)	299,096	539,862	--	--	--	240,766	240,766	--
Water and Sewer	9,622,768	8,634,442	385,111	--	--	(603,215)	(603,215)	--
<b>Total Business-type Activities</b>	<b>9,921,864</b>	<b>9,174,304</b>	<b>385,111</b>	<b>--</b>	<b>--</b>	<b>(362,449)</b>	<b>(362,449)</b>	<b>--</b>
<b>Total Primary Government</b>	<b>\$ 25,373,894</b>	<b>\$ 13,273,054</b>	<b>\$ 1,981,057</b>	<b>\$ --</b>	<b>\$ (9,757,334)</b>	<b>\$ (362,449)</b>	<b>\$ (10,119,783)</b>	<b>--</b>
<b>Component Unit</b>								
Library	\$ 427,522	\$ 25,270	\$ 15,088	\$ --	--	--	--	(387,164)
<b>Total Component Unit</b>	<b>\$ 427,522</b>	<b>\$ 25,270</b>	<b>\$ 15,088</b>	<b>\$ --</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(387,164)</b>
<b>General Purpose Revenues:</b>								
					11,678,598	--	11,678,598	441,625
					1,384,686	--	1,384,686	--
					115,016	19,861	134,877	1,390
					<b>13,178,300</b>	<b>19,861</b>	<b>13,198,161</b>	<b>443,015</b>
					<b>3,420,966</b>	<b>(342,588)</b>	<b>3,078,378</b>	<b>55,851</b>
					(46,419,265)	8,164,781	(38,254,484)	214,734
					<b>\$ (42,998,299)</b>	<b>\$ 7,822,193</b>	<b>\$ (35,176,106)</b>	<b>\$ 270,585</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser  
Balance Sheet  
Governmental Funds  
June 30, 2018**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,734,168	\$ 3,314,737	\$ 7,048,905
Restricted Cash and Cash Equivalents	--	93,088	93,088
Accounts Receivable	150,423	231,406	381,829
Due from Other Governmental Units	301,450	197,511	498,961
Prepays	122,438	19,308	141,746
<i>Total Assets</i>	<u>\$ 4,308,479</u>	<u>\$ 3,856,050</u>	<u>\$ 8,164,529</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 273,764	\$ 11,002	\$ 284,766
Accrued Liabilities	215,904	14,133	230,037
Due to Other Governmental Units	--	2,233	2,233
Unearned Revenue	13,277	--	13,277
<i>Total Liabilities</i>	<u>502,945</u>	<u>27,368</u>	<u>530,313</u>
<b>FUND BALANCE</b>			
Nonspendable	122,438	19,308	141,746
Restricted	--	3,809,374	3,809,374
Unassigned	3,683,096	--	3,683,096
<i>Total Fund Balance</i>	<u>3,805,534</u>	<u>3,828,682</u>	<u>7,634,216</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 4,308,479</u>	<u>\$ 3,856,050</u>	<u>\$ 8,164,529</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2018**

Total Fund Balance - Governmental Funds	\$ 7,634,216
Net Position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements	1,290,281
In the statement of activities, interest is accrued on long-term debt, whereas in governmental funds, the interest expenditure is reported when due.	(20,134)
General government capital assets of \$106,002,060, net of accumulated depreciation of \$87,160,424, are not financial resources and, accordingly, are not reported in the funds.	18,841,636
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.	(747,687)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,957,510)
Net OPEB liabilities, and the OPEB related deferrals, are not due and payable in the current period and, therefore, are not reported in the funds.	(45,743,453)
Net pension liabilities, and the pension related deferrals, are not due and payable in the current period and, therefore, are not reported in the funds.	(20,295,648)
<b>Total Net Position - Governmental Funds</b>	<b>\$ <u>(42,998,299)</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 9,765,727	\$ 2,017,786	\$ 11,783,513
Licenses and Permits	303,057	--	303,057
Intergovernmental Revenues	2,778,200	1,421,502	4,199,702
Charges for Services	846,948	350,434	1,197,382
Fines and Forfeitures	611,334	336,013	947,347
Interest and Rents	36,328	21,213	57,541
Other Revenues	662,515	29,378	691,893
<b>Total Revenues</b>	<u>15,004,109</u>	<u>4,176,326</u>	<u>19,180,435</u>
<b>Expenditures</b>			
General Government	2,141,810	--	2,141,810
Public Safety	6,971,582	48,266	7,019,848
Public Works	1,270,630	763,703	2,034,333
Health and Welfare	--	617,492	617,492
Community and Economic Development	42,788	--	42,788
Recreation and Culture	621,199	--	621,199
Other	1,785,079	--	1,785,079
Capital Outlay	271,943	856,798	1,128,741
Debt Service - Principal	101,351	1,335,000	1,436,351
Debt Service - Interest	7,954	116,460	124,414
<b>Total Expenditures</b>	<u>13,214,336</u>	<u>3,737,719</u>	<u>16,952,055</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>1,789,773</u>	<u>438,607</u>	<u>2,228,380</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	--	150,000	150,000
Transfers Out	--	(150,000)	(150,000)
<b>Net Other Financing Sources (Uses)</b>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Change in Fund Balance</b>	<u>1,789,773</u>	<u>438,607</u>	<u>2,228,380</u>
<i>Fund Balance at Beginning of Period (Restated, Note 14)</i>	2,015,761	3,390,075	5,405,836
<b>Fund Balance at End of Period</b>	<u>\$ 3,805,534</u>	<u>\$ 3,828,682</u>	<u>\$ 7,634,216</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended June 30, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$	2,228,380
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements		211,503
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$1,479,731, plus a loss on disposal of an additional \$8,734, is in excess of capital outlay expenditures of \$1,128,741.		(359,724)
Changes to accrued interest are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position.		9,738
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position.		163,936
The change in OPEB liability, and the OPEB related deferrals, does not require the use of current resources and, accordingly, is not reported in the governmental funds.		(1,009,759)
The change in net pension liability, and the pension related deferrals, does not require the use of current resources and, accordingly, is not reported in the governmental funds.		822,029
Current year long-term debt principal payments on contractual obligations, bonds payable, and capital leases are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements. This represents principal payments on long-term debt of \$1,436,351 plus a reduction in bond premiums of another \$23,427.		1,459,778
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the current year change in unavailable revenues within the fund statements.		(104,915)
<b>Changes in Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>3,420,966</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser  
Statement of Net Position  
Proprietary Funds  
June 30, 2018**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities Internal Service Funds</b>
	<b>Senior Housing (Nonmajor)</b>	<b>Water and Sewer</b>	<b>Total Enterprise Funds</b>	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 205,568	\$ 3,988,419	\$ 4,193,987	\$ 1,138,467
Restricted Cash and Cash Equivalents	--	86,781	86,781	--
Accounts Receivable	18	1,859,471	1,859,489	--
Due from Other Governmental Units	--	73,226	73,226	--
Prepays	--	11,182	11,182	33,179
<b>Total Current Assets</b>	<b>205,586</b>	<b>6,019,079</b>	<b>6,224,665</b>	<b>1,171,646</b>
<i>Noncurrent Assets</i>				
Capital Assets not Being Depreciated	825,000	2,018,808	2,843,808	--
Capital Assets Being Depreciated, net	1,875,178	27,180,593	29,055,771	223,788
<b>Total Assets</b>	<b>2,905,764</b>	<b>35,218,480</b>	<b>38,124,244</b>	<b>1,395,434</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	--	559,480	559,480	--
<b>Total Deferred Outflows of Resources</b>	<b>--</b>	<b>559,480</b>	<b>559,480</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	11,749	497,436	509,185	10,593
Accrued Liabilities	81,415	24,114	105,529	4,977
Accrued Interest Payable	314	120,258	120,572	--
Current Portion of Compensated Absences	--	11,974	11,974	--
Current Portion of Long-term Debt	260,000	1,119,374	1,379,374	13,557
<b>Total Current Liabilities</b>	<b>353,478</b>	<b>1,773,156</b>	<b>2,126,634</b>	<b>29,127</b>
<i>Noncurrent Liabilities</i>				
Net Pension Liability	--	3,220,361	3,220,361	--
Net OPEB Liability	--	8,006,397	8,006,397	--
Compensated Absences	--	21,391	21,391	--
Long-term Debt	--	17,314,064	17,314,064	76,026
<b>Total Liabilities</b>	<b>353,478</b>	<b>30,335,369</b>	<b>30,688,847</b>	<b>105,153</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	--	106,707	106,707	--
OPEB	--	65,977	65,977	--
<b>Total Deferred Inflows of Resources</b>	<b>--</b>	<b>172,684</b>	<b>172,684</b>	<b>--</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	2,440,178	10,679,182	13,119,360	134,205
<i>Restricted for:</i>				
Capital Replacement	--	86,781	86,781	--
<i>Unrestricted</i>	112,108	(5,496,056)	(5,383,948)	1,156,076
<b>Total Net Position</b>	<b>\$ 2,552,286</b>	<b>\$ 5,269,907</b>	<b>\$ 7,822,193</b>	<b>\$ 1,290,281</b>

The Notes to the Financial Statements are an integral part of these Financial Statements



**City of Fraser**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<u>Business-type Activities - Enterprise Funds</u>			<b>Governmental Activities Internal Service Funds</b>
	<b>Senior Housing (Nonmajor)</b>	<b>Water and Sewer</b>	<b>Total Enterprise Funds</b>	
<b>Operating Revenues</b>				
Charges for Services	\$ --	\$ 8,499,947	\$ 8,499,947	\$ 1,488,464
Interest and Penalties	--	105,222	105,222	--
Rentals	539,862	--	539,862	--
Other Revenues	--	29,273	29,273	--
<b>Total Operating Revenues</b>	<u>539,862</u>	<u>8,634,442</u>	<u>9,174,304</u>	<u>1,488,464</u>
<b>Operating Expenses</b>				
Salaries	26,742	619,586	646,328	65,960
Fringe Benefits	3,356	1,660,906	1,664,262	35,822
Administrative Charges	3,092	364,869	367,961	509
Materials and Supplies	12,659	167,509	180,168	90,809
Contractual Services	--	234,825	234,825	229,754
Repairs and Maintenance	72,741	614,001	686,742	261,766
Cost of Water	--	1,302,016	1,302,016	--
Cost of Sewage Disposal	--	2,677,392	2,677,392	--
Utilities	47,239	2,732	49,971	--
Claims Paid	--	--	--	556,729
Miscellaneous	39,352	22,748	62,100	1,584
Depreciation	88,764	1,424,832	1,513,596	93,087
<b>Total Operating Expenses</b>	<u>293,945</u>	<u>9,091,416</u>	<u>9,385,361</u>	<u>1,336,020</u>
<b>Operating Income (Loss)</b>	<u>245,917</u>	<u>(456,974)</u>	<u>(211,057)</u>	<u>152,444</u>
<b>Non-Operating Revenues (Expenses)</b>				
Intergovernmental Revenues	--	385,111	385,111	--
Interest and Other Revenues	19,861	--	19,861	61,444
Interest on Long-term Debt	(5,151)	(531,352)	(536,503)	(2,385)
<b>Net Non-Operating Revenues (Expenses)</b>	<u>14,710</u>	<u>(146,241)</u>	<u>(131,531)</u>	<u>59,059</u>
<b>Change In Net Position</b>	<u>260,627</u>	<u>(603,215)</u>	<u>(342,588)</u>	<u>211,503</u>
<i>Net Position at Beginning of Period (Restated, Note 14)</i>	2,291,659	5,873,122	8,164,781	1,078,778
<b>Net Position at End of Period</b>	<u>\$ 2,552,286</u>	<u>\$ 5,269,907</u>	<u>\$ 7,822,193</u>	<u>\$ 1,290,281</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Senior Housing (Nonmajor)</b>	<b>Water and Sewer</b>	<b>Total Internal Service Funds</b>	<b>Internal Service Funds</b>
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers	\$ 521,159	\$ 8,538,065	\$ 9,059,224	\$ 1,621,808
Payments to Suppliers	(171,730)	(5,397,074)	(5,568,804)	(918,530)
Payments to Employees	(31,583)	(1,053,921)	(1,085,504)	(101,530)
<i>Net Cash Provided by Operating Activities</i>	<u>317,846</u>	<u>2,087,070</u>	<u>2,404,916</u>	<u>601,748</u>
<b>Cash Flows from Noncapital and Related Financing Activities</b>				
Change in Interfund Balances	-	(57,907)	(57,907)	(85,700)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>-</u>	<u>(57,907)</u>	<u>(57,907)</u>	<u>(85,700)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Capital Assets	-	(2,006,765)	(2,006,765)	-
Prior Period Adjustment relating to Capital Assets	-	-	-	(15,077)
Proceeds from Sale of Capital Assets	-	-	-	10,641
Principal and Interest Paid on Capital Debt	(270,786)	(1,500,993)	(1,771,779)	(17,006)
Proceeds from Bond Issuance	-	1,813,487	1,813,487	-
Property Taxes Related to Debt Service	-	-	-	-
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(270,786)</u>	<u>(1,694,271)</u>	<u>(1,965,057)</u>	<u>(21,442)</u>
<b>Cash Flows from Investing Activities</b>				
Interest Received on Investments	19,861	385,111	404,972	61,444
<i>Net Cash from Investing Activities</i>	<u>19,861</u>	<u>385,111</u>	<u>404,972</u>	<u>61,444</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	66,921	720,003	786,924	556,050
Cash and Cash Equivalents Beginning of Period	138,647	3,355,197	3,493,844	582,417
<i>Cash and Cash Equivalents End of Period</i>	<u>\$ 205,568</u>	<u>\$ 4,075,200</u>	<u>\$ 4,280,768</u>	<u>\$ 1,138,467</u>
<b>Reconciliation to Statement of Net Position</b>				
Cash and Cash Equivalents	\$ 205,568	\$ 3,988,419	\$ 4,193,987	\$ 1,138,467
Restricted Cash and Cash Equivalents	-	86,781	173,562	260,343
<i>Total</i>	<u>\$ 205,568</u>	<u>\$ 4,075,200</u>	<u>\$ 4,367,549</u>	<u>\$ 1,398,810</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
<b>Operating Income (Loss)</b>	\$ 245,917	\$ (456,974)	\$ (211,057)	\$ 152,444
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:</b>				
<b>Cash from Operating Activities:</b>				
Depreciation	88,764	1,424,832	1,513,596	93,087
<b>Changes in Assets and Liabilities:</b>				
Receivables	557	(113,747)	(113,190)	133,344
Due from Other Governmental Units	-	17,370	17,370	-
Prepaid Items	-	(11,182)	(11,182)	245,706
Accounts Payable	(76,882)	839	(76,043)	(23,085)
Accrued Liabilities	80,235	(639)	79,596	2,039
Unearned Revenue	(19,260)	-	(19,260)	-
Compensated Absences	(1,485)	(3,762)	(5,247)	(1,787)
Net Pension Liability	-	1,053,062	1,053,062	-
Net Other Post-employment Liability	-	177,271	177,271	-
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 317,846</u>	<u>\$ 2,087,070</u>	<u>\$ 2,404,916</u>	<u>\$ 601,748</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Fraser**  
**Statement of Fiduciary Assets and Liabilities**  
**Fiduciary Funds**  
**June 30, 2018**

	<b>Agency</b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,196,352
Due from Other Governmental Units	16,582
<i>Total Assets</i>	1,206,143
<b>LIABILITIES</b>	
Due to Other Governmental Units	1,212,934
<i>Total Liabilities</i>	\$ 1,206,143

The Notes to the Financial Statements are an integral part of these Financial Statements

## **NOTES TO FINANCIAL STATEMENTS**

## City of Fraser

### Notes to the Financial Statements

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#### **Note 1 - Summary of Significant Accounting Policies**

The City of Fraser, Michigan, (the “City” or “government”) is located in Macomb County, Michigan, and has a population of approximately 14,602. 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 basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

#### ***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 (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.

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 contain all the funds controlled by the City Council in addition to one blended component unit and one discretely presented component unit.

#### ***Blended Component Unit***

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.

#### ***Discretely Presented Component Unit***

The Fraser Public Library (the “Library”) was formed under the City, Village, and Township

## City of Fraser

### Notes to the Financial Statements

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Libraries Act, 1877 PA 164 and, as of November 2017, was governed by an elected board separate from the governing body of the City. Under PA 164, the Library has substantive approval of its tax rate and control over its budget. For these reasons, the City has determined that the Library meets the criteria for being a discretely presented component unit.

#### ***Basis of Presentation***

***Government-wide Financial Statements.*** The statements of net position and activities display information about the primary government (the City) and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: a) fees, fines and charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### ***Fund Financial Statements***

The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports one major governmental fund:

The ***general fund*** is used to account for and reports all financial resources not accounted for and reported in another fund.

The City reports one major enterprise fund:

The ***wastewater fund*** accounts for the activities of the government's water distribution and treatment system, sewage disposal and treatment system; financing is provided primarily by user charges.

## City of Fraser

### Notes to the Financial Statements

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Additionally, the City reports the following fund types:

*Special revenue funds* are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

*Debt service funds* are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

*Internal service funds* account for the activity of goods and services provided to other departments and funds on a cost reimbursement basis. The City's internal service funds account for motor pool and medical self-insurance operations.

*Agency funds* account for assets held for other governments in an agency capacity. The City's agency funds account for tax collections held temporarily prior to disbursing to other taxing entities and a trust and agency fund primarily to segregate district court pass-through liabilities.

The *Senior Housing Fund* is used to account for rents charged for the provision of affordable housing for seniors in the City.

#### **Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end or one

## City of Fraser

### Notes to the Financial Statements

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year for expenditure-driven grants. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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 the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Budgetary Information***

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 and Rubbish 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.



## City of Fraser

### Notes to the Financial Statements

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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.

### **Assets, Deferred Inflows and Outflows of Resources, Liabilities, and Equity**

#### ***Cash and Cash Equivalents***

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 consists of checking, savings, and money market accounts. Cash equivalents consist of temporary investments in money market mutual funds and certificates of deposit with original maturities of ninety (90) days or less.

#### ***Restricted Cash and Cash Equivalents***

The City's restricted cash and cash equivalents consist of unspent bond proceeds and amounts earmarked for debt service and capital purchases.

#### ***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.

#### ***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. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible.

#### ***Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

## City of Fraser

### Notes to the Financial Statements

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#### ***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

#### ***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 acquisition cost on the date received.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Type</u>	<u>Years</u>
Land improvements	15
Building and improvements	20-50
Vehicles	5-20
Machinery and equipment	5-20
Library Collection	7
Road Improvements	5-30
Water and Sewer Distribution Systems	25-30
Furniture and Fixtures	5-15

#### ***Unearned Revenue***

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

#### ***Deferred Outflows of Resources***

In addition to assets, the statement of net position 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 that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, pension related deferred outflows. The government-

## City of Fraser

### Notes to the Financial Statements

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wide statements and proprietary funds report pension-related deferred outflows from the difference between expected and actual experience, changes in assumptions, and City contributions made after the measurement date of the net pension liability.

#### ***Compensated Absences***

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, subject to certain limitations. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

#### ***Long-term Obligations***

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### ***Deferred Inflows of Resources***

In addition to liabilities, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue / reduction of expense) until that time. The City has two items that qualifies for reporting in this category: pension related deferred inflows and OPEB related deferred inflows. The government-wide statements and proprietary funds report deferred inflows from the difference between expected and actual experience, excess investment returns, and changes in assumptions of the pension and OPEB plans.

#### ***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and

## City of Fraser

### Notes to the Financial Statements

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proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### ***Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, interfund advances, and the nonspendable portion of endowments. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Council has the authority to make fund balance assignments.

*Unassigned fund balance* is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Council. The general fund is the only fund that reports a positive

## City of Fraser

### Notes to the Financial Statements

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unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

#### ***Net OPEB Liability***

The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Retiree Health Care Plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### ***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 and personal 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 refuse services,

# City of Fraser

## Notes to the Financial Statements

ambulance services, city hall debt repayment, streets, and library services. For the year ended June 30, 2018, the City levied 18.4180 mills per \$1,000 of assessed valuation for general governmental services, 1.3783 mills for refuse services, 0.9818 mills for ambulance services, 2.2600 for streets, 1.3200 mills for city hall debt repayment, 2.000 for public safety, and 1.0000 mills for library services. The total taxable value for the 2017 levy for property within the City was \$429,682,310.

### *Use of Estimates*

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### **Note 2 - Statutory Compliance**

#### **Excess of expenditures over appropriations in budgetary funds**

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a departmental level basis.

The City did not incur any expenditures in excess of the amounts appropriated at the legal level of budgetary control within the major fund during the year ended June 30, 2018.

At June 30, 2018, the City had the following deficit unrestricted net positions:

	<b>Unrestricted Net Position</b>
<b>Governmental Activities</b>	\$(61,938,144)
<b>Business-type Activities</b>	
Water and Sewer	(5,383,948)

### **Note 3 - Cash and Investments**

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

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- 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

## City of Fraser

### Notes to the Financial Statements

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.

- 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.
- The United States government or federal agency obligations repurchase agreements.
- Bankers' acceptances of United States banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Following is a reconciliation of deposit balances as of June 30, 2018:

	<b>Primary Government</b>	<b>Component Unit</b>	<b>Totals</b>
<b>Statement of Net Position</b>			
Cash and Cash Equivalents	\$ 12,381,359	\$ 187,912	\$ 12,569,271
Restricted Cash and Cash Equivalents	179,869	-	179,869
<b>Statement of Fiduciary Net Position</b>			
Cash and Cash Equivalents	1,196,352	-	1,196,352
<b>Total</b>	<b>\$ 13,757,580</b>	<b>\$ 187,912</b>	<b>\$ 13,945,492</b>

#### **Deposits and Investments**

Bank deposits (checking, savings, and certificates of deposit)	\$ 13,940,692
Cash on hand	4,800
<b>Total</b>	<b>\$ 13,945,492</b>

#### ***Custodial Credit Risk - Deposits***

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to the government. As of June 30, 2018, \$13,037,324 of the City's total bank balance of \$14,387,181 was exposed to custodial credit risk as it was uninsured and uncollateralized.

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.

## City of Fraser

### Notes to the Financial Statements

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#### ***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



**City of Fraser**

Notes to the Financial Statements

**Note 4 - Capital Assets**

Capital asset activity for the governmental activities of the primary government for the year ended June 30, 2018 was as follows:

<b>Governmental Activities</b>	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 4,938,136	\$ -	\$ -	\$ 4,938,136
Construction in Process	2,452,490	62,237	2,452,490	62,237
Total capital assets not being depreciated	<u>7,390,626</u>	<u>62,237</u>	<u>2,452,490</u>	<u>5,000,373</u>
Capital assets being depreciated				
Land Improvements	832,618	482,301	-	1,314,919
Roads and Sidewalks	86,427,737	2,406,777	-	88,834,514
County Road Improvements	553,414	578,041	-	1,131,455
Buildings and Improvements	6,751,316	11,500	-	6,762,816
Vehicles	2,189,428	-	795,741	1,393,687
Machinery and Equipment	1,522,866	40,376	262,611	1,300,631
Furniture and Fixtures	263,665	-	-	263,665
Total capital assets being depreciated	<u>98,541,044</u>	<u>3,518,995</u>	<u>1,058,352</u>	<u>101,001,687</u>
Less accumulated depreciation				
Land Improvements	188,865	38,343	-	227,208
Roads and Sidewalks	80,597,231	611,531	-	81,208,762
County Road Improvements	251,237	34,887	-	286,124
Buildings and Improvements	2,695,877	439,930	-	3,135,807
Vehicles	1,479,411	239,868	787,007	932,272
Machinery and Equipment	1,254,025	115,172	262,611	1,106,586
Furniture and Fixtures	263,665	-	-	263,665
Total accumulated depreciation	<u>86,730,311</u>	<u>1,479,731</u>	<u>1,049,618</u>	<u>87,160,424</u>
Internal Service Fund Capital Assets	<u>327,516</u>	<u>(93,087)</u>	<u>10,641</u>	<u>223,788</u>
Net capital assets being depreciated	<u>12,138,249</u>	<u>1,946,177</u>	<u>8,734</u>	<u>14,065,051</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 19,528,875</u>	<u>\$ 2,008,414</u>	<u>\$ 2,461,224</u>	<u>\$ 19,065,424</u>

## City of Fraser

### Notes to the Financial Statements

Capital asset activity for the internal service fund for the year ended June 30, 2018 was as follows:

<b>Internal Service Fund</b>	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital assets being depreciated				
Machinery and Equipment	\$ 313,391	\$ -	\$ 11,593	\$ 301,798
Vehicles	1,931,745	-	871,575	1,060,170
Total capital assets being depreciated	<u>2,245,136</u>	<u>-</u>	<u>883,168</u>	<u>1,361,968</u>
Less accumulated depreciation				
Machinery and Equipment	112,134	38,199	6,956	143,377
Vehicles	1,805,486	54,888	865,571	994,803
Total accumulated depreciation	<u>1,917,620</u>	<u>93,087</u>	<u>872,527</u>	<u>1,138,180</u>
<b><i>Internal Service Capital Assets, Net</i></b>	<u>\$ 327,516</u>	<u>\$ (93,087)</u>	<u>\$ 10,641</u>	<u>\$ 223,788</u>

Capital asset activity for the business-type activities of the primary government for the year ended June 30, 2018 was as follows:

<b>Business-type Activities</b>	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in Process	2,529,729	2,006,765	2,529,729	2,006,765
Total capital assets not being depreciated	<u>3,366,772</u>	<u>2,006,765</u>	<u>2,529,729</u>	<u>2,843,808</u>
Capital assets being depreciated				
Water and Sewer Distribution System	42,023,795	2,529,729	-	44,553,524
Machinery and Equipment	103,362	-	-	103,362
Buildings and Building Improvements	4,001,212	-	-	4,001,212
Total capital assets being depreciated	<u>46,128,369</u>	<u>2,529,729</u>	<u>-</u>	<u>48,658,098</u>
Less accumulated depreciation				
Water and Sewer Distribution System	16,040,871	1,419,538	-	17,460,409
Machinery and Equipment	10,590	5,294	-	15,884
Buildings and Building Improvements	2,037,270	88,764	-	2,126,034
Total accumulated depreciation	<u>18,088,731</u>	<u>1,513,596</u>	<u>-</u>	<u>19,602,327</u>
Net capital assets being depreciated	<u>28,039,638</u>	<u>1,016,133</u>	<u>-</u>	<u>29,055,771</u>
<b><i>Business-type Activities Capital Assets, Net</i></b>	<u>\$ 31,406,410</u>	<u>\$ 3,022,898</u>	<u>\$ 2,529,729</u>	<u>\$ 31,899,579</u>

**City of Fraser**

Notes to the Financial Statements

Component unit capital assets activity for the year ended June 30, 2018 was as follows:

<b>Component Unit - Library</b>	June 30, 2017	Additions	Reductions	June 30, 2018
Capital assets being depreciated				
Furniture and Fixtures	\$ -	\$ 5,652	\$ -	\$ 5,652
Collections	329,069	38,884	-	367,953
Machinery and Equipment	-	6,729	-	6,729
Total capital assets being depreciated	<u>329,069</u>	<u>51,265</u>	<u>-</u>	<u>380,334</u>
Less accumulated depreciation				
Furniture and Fixtures	-	471	-	471
Collections	234,503	30,852	-	265,355
Machinery and Equipment	-	1,346	-	1,346
Total accumulated depreciation	<u>234,503</u>	<u>32,669</u>	<u>-</u>	<u>267,172</u>
Net capital assets being depreciated	<u>94,566</u>	<u>18,596</u>	<u>-</u>	<u>113,162</u>
<b>Component Unit - Library</b>	<u>\$ 94,566</u>	<u>\$ 18,596</u>	<u>\$ -</u>	<u>\$ 113,162</u>

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

**Governmental Activities**

General Government	\$ 474,551
Public Safety	266,066
Public Works	584,809
Recreation & Culture	154,305
Motor Pool	93,087
<b>Total Governmental Activities</b>	<u>\$ 1,572,818</u>

**Business-type Activities**

Water and Sewer	\$ 1,424,832
Senior Citizen Housing Complex	88,764
<b>Total Business-type Activities</b>	<u>\$ 1,513,596</u>

\*Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets.

## City of Fraser

### Notes to the Financial Statements

#### Note 5 - Long-term Debt

*Changes in Long-term Debt.* Long-term liability activity for the year ended June 30, 2018 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Amount Due in One Year</u>
2010 Refunding Bonds	\$ 1,530,000	\$ -	\$ 490,000	\$ 1,040,000	\$ 510,000
2015 General Obligation Unlimited Tax Bonds	3,465,000	-	845,000	2,620,000	865,000
2015 Bond Premium	93,710	-	23,427	70,283	-
Installment Purchase Agreements- E911 phones	2,893	-	2,893	-	-
Lease Purchase Agreements- Office Equipment - Copiers	41,227	-	9,008	32,219	9,304
Installment Purchase Agreements- Office Equipment - Plotter	16,891	-	3,544	13,347	3,660
Installment Purchase Agreements- Telephone System	43,501	-	8,261	35,240	8,806
Installment Purchase Agreements- Toro Groundmaster 5900 Mower	104,204	-	14,621	89,583	13,557
DTE Street Lighting Upgrades	224,066	-	77,645	146,421	79,204
<b>Total Governmental Activities Debt</b>	<b>5,521,492</b>	<b>-</b>	<b>1,474,398</b>	<b>4,047,093</b>	<b>1,489,531</b>
Compensated Absences	908,880	-	161,193	747,687	120,498
<b>Total Long-term Debt</b>	<b>\$ 6,430,372</b>	<b>\$ -</b>	<b>\$ 1,635,591</b>	<b>\$ 4,794,780</b>	<b>\$ 1,610,029</b>

<u>Business-type Activities</u>	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>	<u>Amount Due in One Year</u>
2012A Refunding Bonds	\$ 865,000	\$ -	\$ 135,000	\$ 730,000	\$ 130,000
2012B Refunding Bonds	525,000	-	265,000	260,000	260,000
2010B OMID Drainage District	117,010	-	6,506	110,504	6,856
2010 North Gratiot Drainage District	28,207	-	1,197	27,010	1,228
2010A OMID Drainage District	454,795	-	27,421	427,374	28,120
2009 Clean Water Revolving Loan Fund	5,215,000	-	345,000	4,870,000	355,000
2011 OMID Drainage District	640,685	-	30,671	610,014	31,528
2011 MID Drainage District	1,148,432	-	54,149	1,094,283	58,662
2013A OMID Drainage District	1,457,380	-	68,080	1,389,300	69,422
2014A OMID Drainage District	214,256	-	9,317	204,939	9,637
2015 Public OMID Drainage District	446,811	-	18,617	428,194	19,165
2015 North Gratiot Interceptor Refunding	279,327	-	12,089	267,238	16,461
2015A MID CWRF Project	121,156	-	6,432	114,724	6,653
2016 Clean Water Revolving Fund Loan	732,620	1,813,487	-	2,546,107	125,000
2017A MID Drainage District Refunding	2,611,754	-	110,489	2,501,265	96,899
2017A MID Drainage District Sinkhole	2,529,729	-	46,917	2,482,812	56,595
Installment Purchase Agreement - Sewer Vacuum Equipment	190,000	-	35,000	155,000	35,000
Installment Purchase Agreement - Backhoe	24,000	-	12,000	12,000	12,000
Installment Purchase Agreement - Water Meters	522,283	-	59,609	462,674	61,149
<b>Total Business-type Activities Debt</b>	<b>18,123,445</b>	<b>1,813,487</b>	<b>1,243,494</b>	<b>18,693,438</b>	<b>1,379,374</b>
Compensated Absences	38,612	-	5,247	33,365	11,974
<b>Total Long-term Debt</b>	<b>\$ 18,162,057</b>	<b>\$ 1,813,487</b>	<b>\$ 1,248,741</b>	<b>\$ 18,726,803</b>	<b>\$ 1,391,348</b>

The installment loans, installment purchase agreements, and compensated absence liabilities are normally liquidated by the General Fund. The installment purchase agreement for the Groundmaster mower is liquidated by the Motor Pool Fund.

**City of Fraser**

Notes to the Financial Statements

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Significant details regarding outstanding long-term debt 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 \$490,000 to \$530,000 through October 1, 2019, with interest ranging from 2.75 to 4.00 percent.	\$1,040,000
\$5,135,000 2015 General Obligation Limited Tax Refunding Bonds dated June 16, 2015, due in annual installments ranging from \$845,000 to \$880,000 through October 1, 2020, with interest ranging from 2.00 to 3.00 percent.	<u>2,620,000</u>
	<u>\$ 3,660,000</u>

Installment Loan and Lease Purchase Agreements

\$47,072 Installment Purchase Agreement for copiers dated November 2016, due in monthly installments ranging from \$740 to \$806, including interest of 3.237 percent through March 2020.	\$ 32,219
\$18,620 Lease Purchase Agreement for a plotter dated January 5, 2017, due in monthly installments ranging from \$289 to \$336 through January 4, 2022, with interest of 3.24 percent.	13,347
\$46,139 Installment Purchase Agreement for a telephone system dated February 1, 2017, due in monthly installments ranging from \$668 to \$896 through February 1, 2022, with interest of 6.415 percent.	35,240
\$104,204 Installment Purchase Agreement for a Groundmaster mower dated March 15, 2017, due in an annual installments ranging from \$13,557 to \$16,375 through October 8, 2023, with interest of 3.85 percent.	89,583
\$236,857 Installment Purchase Agreement for DTE Streetlight modernization dated May 20, 2017, due in monthly installments ranging from \$6,412 to \$6,772, including interest of 1.990 percent through April 20, 2020.	<u>146,421</u>
	<u>\$316,811</u>

# City of Fraser

## Notes to the Financial Statements

### 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 \$260,000 to \$265,000 through November 1, 2018, with interest at 1.45 percent.	\$260,000
\$1,340,000 2012A General Obligation Limited Tax Refunding Bonds dated June 12, 2012, due in annual installments ranging from \$130,000 to \$165,000 through October 1, 2022, with interest of 2.0 percent.	730,000
	<hr/>
	\$ 990,000

#### Macomb County Water Disposal District

\$155,701 2010B Oakland-Macomb Interceptor Drainage District Bonds dated April 1, 2010, due in annual installments ranging from \$6,507 to \$12,084 through April 1, 2030, with interest ranging from 4.35 to 5.90 percent.	\$110,504
\$35,618 2010 North Gratiot Drainage District Bonds dated May 11, 2010, due in annual installments ranging from \$1,197 to \$2,047 through May 1, 2035, with interest ranging from 4.55 to 6.35 percent.	27,010
\$605,990 2010A Oakland-Macomb Interceptor Drainage District Bonds dated February 1, 2010, due in annual installments ranging from \$27,422 to \$37,996 through April 1, 2031, with interest of 2.50 percent.	427,374
\$728,420 2011 Oakland-Macomb Interceptor Drainage District Bonds dated January 1, 2012, due in annual installments ranging from \$30,672 to \$45,508 through October 1, 2033, with interest of 2.50 percent.	610,014
\$1,389,850 2011 Macomb Interceptor Drainage District Bonds dated October 18, 2011, due in annual installments ranging from \$54,150 to \$112,813 through October 1, 2031, with interest of 5.00 percent.	1,094,283
\$1,589,514 2013A Oakland-Macomb Interceptor Drainage District Bonds dated July 1, 2013, due in estimated annual installments ranging from \$68,080 to \$95,287 through October 1, 2034, with interest of 2.00 percent.	1,389,300
\$232,405 2014A Oakland-Macomb Interceptor Drainage District Bonds dated October 1, 2014, due in annual installments ranging from \$9,315 to \$15,258 through October 1, 2034, with interest ranging from 2.00 to 3.125 percent.	204,939
\$464,881 2015 Public Oakland-Macomb Interceptor Drainage District Bonds dated April 1, 2015, due in annual installments ranging from \$18,617 to \$29,295 through April 1, 2036, with interest of 2.50 percent.	428,194

**City of Fraser**

Notes to the Financial Statements

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\$291,330 2015 North Gratiot Interceptor Refunding Drainage District Bonds dated July 1, 2015, due in annual installments ranging from \$12,003 to \$19,290 through November 1, 2033, with interest ranging from 3.50 to 5.00 percent.	267,238
\$127,587 2015A MID CWRF Drainage District Bonds dated October 1, 2016, due in annual installments ranging from \$6,431 to \$9,314 through October 1, 2035, with interest of 2.50 percent. The full amount of \$163,001 has yet to be drawn.	114,724
\$2,611,754 2017A MID Drainage District Refunding Bonds dated April 19, 2017, due in annual installments ranging from \$96,899 to \$210,343 through May 1, 2035, with interest of 3.939 percent.	2,501,265
\$2,529,729 2017A MID Drainage District Sinkhole Bonds dated April 19, 2017, due in annual installments ranging from \$49,917 to \$167,260 through May 1, 2042, with interest of 4.2078 percent.	2,482,812
	<hr/>
	\$9,657,657

Revenue Bonds

\$7,398,000 2009 Clean Water Revolving Loan Fund, dated April 17, 2009, due in annual installments ranging from \$345,000 to \$460,000 through October 1, 2029, with interest of 2.50 percent.	\$4,870,000
\$732,620 2016 Clean Water Revolving Loan Fund, dated September 29, 2016, due in annual installments ranging from \$125,000 to \$200,000 through October 1, 2029, with interest of 2.50 percent. The full amount of \$3,230,000 has yet to be drawn.	2,546,107
	<hr/>
	\$7,416,107

Lease Purchase Agreements

\$330,934 Lease Purchase Agreement for sewer vacuum equipment dated December 7, 2011, due in annual installments ranging from \$35,000 to \$45,000 through October 1, 2021, with interest of 2.97 percent.	\$155,000
\$76,164 Lease Purchase Agreement for a backhoe dated July 11, 2012, due in annual installments of \$12,000 through October 1, 2018, with interest of 3.25 percent.	12,000
\$637,036 Lease Purchase Agreement for water meters dated March 12, 2015, due in annual installments ranging from \$59,609 to \$71,259 through October 1, 2024, with interest of 2.49 percent.	462,674
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	\$629,674

**City of Fraser**

Notes to the Financial Statements

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 \$781,052 at June 30, 2018.

The annual requirements to pay the debt principal and interest outstanding for the bonds and installment and lease purchase agreements are as follows:

Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 1,489,531	\$ 86,019	\$ 1,575,550	\$ 1,379,374	\$ 580,867	\$ 1,960,242
2020	1,537,502	45,879	1,583,381	1,155,686	543,703	1,699,389
2021	936,888	14,543	951,431	1,184,184	510,406	1,694,590
2022	27,601	2,034	29,635	1,217,949	475,980	1,693,929
2023	15,768	1,238	17,006	1,230,280	440,860	1,671,139
2024-2028	39,801	630	40,432	5,627,231	1,694,279	7,321,510
2029-2033	-	-	-	4,591,785	856,394	5,448,179
2034-2038	-	-	-	1,684,195	298,231	1,982,426
2039-2042	-	-	-	622,754	79,738	702,492
<b>Totals</b>	<b>\$ 4,047,093</b>	<b>\$ 150,343</b>	<b>\$ 4,197,435</b>	<b>\$ 18,693,438</b>	<b>\$ 5,480,459</b>	<b>\$ 24,173,898</b>

**Note 6 - Interfund Transfers**

For the year ended June 30, 2018, interfund transfers consisted of the following:

Transfer In	Transfer Out	Amount
Local Streets	Major Streets	\$ 150,000

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 7 - Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2018, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past



## City of Fraser

### Notes to the Financial Statements

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three fiscal years.

#### **Note 8 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential 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 government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

#### **Note 9 - Employee Retirement Systems**

##### **Defined Contribution Pension Plan**

The City provides a defined contribution pension plan, which provides retirement benefits to qualified employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City and participants contribute a percentage of participant's salary to the plans. City contributions to the plan at 8% of salary and participant contributions are Optional. City contributions for the fiscal year 2018 were \$61,894 and participant contributions were \$57,273. The plan provisions and contribution amounts were established by the City Council and may be amended by the Council. The plan is administered along with the defined benefit pension plans, through Hartford and ICMA.

##### **Defined Benefit Pension Plan**

###### ***Benefits Provided***

*Plan Description.* The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

**City of Fraser**

Notes to the Financial Statements

Retirement benefits for employees are calculated as follows:

Division	Benefit Multiplier	Benefit Maximum	Final Average Compensation (Years)	Normal Retirement Age	Unreduced Benefit (Age/Years of Service)	Reduced Benefit (Age/Years of Service)	Vesting (Years)
Police Deferred and Retired - Closed	Service x(1%xFAC<\$4,200 +1.5%xFAC>\$4,200 0)	NA	5	60	NA	50/25 or 55/15	10
Supervisor/Management - Open	2.50%	80%	5	60	50/25 or 55/10	NA	6
Clerical/Court - Open	2.50%	80%	5	60	50/25 or 55/15	NA	6
POLC - Open	2.50%	80%	3	55	50/25	NA	10
POAN - Open	2.50%	80%	5	55	50/25	NA	10
Dispatch - Open	2.50%	80%	5	55	50/25 or 55/10	NA	10
DPW - Open	2.75%	80%	5	60	50/25 or 55/10	NA	6

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions. Police employee benefit terms may be subject to binding arbitration in certain circumstances.

***Employees Covered by Benefit Terms***

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	106
Inactive plan members entitled to but not yet receiving benefits	19
Active plan members	64
Total employees covered by MERS	189

***Contributions***

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. 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 employer may establish contribution rates to be paid by its covered employees.

## City of Fraser

### Notes to the Financial Statements

For the year ended June 30, 2018, the City had the following contribution rates:

Division	Employee Contributions	Employer Contributions
Police Deferred and Retired - Closed	3%<, 5%>	\$ -
Supervisor/Management - Open	7.00%	167.55%
Clerical/Court - Open	7.00%	10.38%
POLC - Open	7.00%	63.17%
POAN - Open	7.00%	26.84%
Dispatch - Open	7.00%	11.91%
DPW - Open	7.00%	31.12%

#### *Net Pension Liability*

The net pension liability reported at June 30, 2018 was determined using a measure of the total pension liability and the pension net position as of December 31, 2017. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2016</b>	\$ 57,749,685	\$ 28,741,299	\$ 29,008,386
Service cost	881,648	-	881,648
Interest	4,509,170	-	4,509,170
Differences between expected and actual	(829,041)	-	(829,041)
Changes in benefit terms	(380,513)	-	(380,513)
Contributions - Employer	-	2,153,010	(2,153,010)
Contributions - Employee	-	508,697	(508,697)
Net investment income	-	3,750,994	(3,750,994)
Benefit payments, including refunds	(3,651,748)	(3,651,748)	-
Administrative expenses	-	(59,395)	59,395
<b><i>Net changes</i></b>	<b>529,516</b>	<b>2,701,558</b>	<b>(2,172,042)</b>
<b>Balance at December 31, 2017</b>	<b>\$ 58,279,201</b>	<b>\$ 31,442,857</b>	<b>\$ 26,836,344</b>

## City of Fraser

### Notes to the Financial Statements

#### ***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2018, the City recognized pension expense of \$3,085,008. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,459,643	\$ 621,782
Changes in assumptions	546,023	-
Excess (deficit) investment returns	-	267,440
* Contributions subsequent to the measurement date	2,656,664	-
Total	\$ 4,662,330	\$ 889,222

\* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date, \$2,656,664, will be recognized as a reduction in the net pension liability for the year ending June 30, 2019.

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
June 30	
2019	\$ 1,648,028
2020	447,644
2021	(680,495)
2022	(298,733)
	\$ 1,116,444

#### ***Actuarial Assumptions***

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5% (3-4% for 2014)

Salary Increases: base wage inflation of 3.75% in the long-term

Investment rate of return: 7.75%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-

## City of Fraser

### Notes to the Financial Statements

2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	55.50%	8.65%
Global fixed income	18.50%	3.76%
Real assets	13.50%	9.72%
Diversifying strategies	12.50%	7.50%
	<u>100.0%</u>	

#### ***Discount Rate***

The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the 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.

**City of Fraser**

Notes to the Financial Statements

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability of the City	\$ 33,272,820	\$ 26,836,344	\$ 21,387,574

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan’s fiduciary net position is available in the separately issued plan financial statements.

**Note 10 - Postemployment Health Care Benefits**

***Plan Description***

The City provides retiree healthcare benefits through the City of Fraser’s retiree healthcare plan (the “Plan”) to eligible employees and their spouses. The benefits are provided under collective bargaining agreements. The plan does not issue a publicly available financial report. The plan is a single-employer defined benefit plan administered by the city.

***Benefits Provided and Contributions***

The Plan was established and is being funded under the authority of the City. The plan's funding policy is that the employer will contribute discretionary amounts if able in subsequent years. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2017):

Inactive plan members or beneficiaries currently receiving benefits	101
Inactive plan members entitled to but not yet receiving benefits	14
Active plan members	44
Total employees covered by the Plan	159

***Methods and Assumptions***

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 and a

# City of Fraser

## Notes to the Financial Statements

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measurement date of June 30, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	20 years, closed
Asset Valuation Method	There are no assets as of the measurement date.
Price Inflation	2.50%
Wage Inflation	4.00%
Salary Increases	4.00% to 17.00%
Investment Rate of Return	4.50%, net of OPEB plan investment expense
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	The RP-2000 Mortality Combined Healthy Tables projected 20 years with U.S. Projection Scale BB.
Health Care Trend Rates	Initial trend of 9.00% gradually decreasing to an ultimate trend rate of 4.00% in year 10
Excise Tax	No load was applied in connection with the "Cadillac" tax.
Aging Factors	Based on an internal GRS study using several pricing manuals from National Health Care Consultant groups and incorporating analysis and data from an SOA survey regarding aging practices used in health care valuations.

As this plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

### ***Discount Rate***

The discount rate used to measure the total OPEB liability was 3.62%. Because the OPEB Plan does not have a dedicated OPEB trust, there are no assets projected to be sufficient to make projected future benefit payments of current plan members. Projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability

## City of Fraser

### Notes to the Financial Statements

#### *Changes in the Total OPEB Liability*

Changes in the net OPEB liability during the measurement year were as follows:

Changes in OPEB Liability	Increase (Decrease) Total OPEB Liability
<b>Balance at June 30, 2017</b>	\$ 52,634,023
Service cost	972,690
Interest	1,866,367
Differences between expected and actual experience	(247,781)
Changes in actuarial assumptions	(460,659)
Benefit payments, including refunds	(1,388,659)
<b>Net changes</b>	<b>741,958</b>
<b>Balance at June 30, 2018</b>	<b>\$ 53,375,981</b>

#### *Sensitivity of the Net OPEB Liability to Changes in the Discount and Trend Rates*

The following presents the net OPEB liability (NOL) of the City, calculated using trend and discount rates 1% higher and lower than base assumptions:

	1% Decrease, 2.62%	Current Discount Rate, 3.62%	1% Increase, 4.62%
Net OPEB Liability	\$ 61,912,541	\$ 53,375,981	\$ 46,508,570
	1% Decrease	Current Trend	1% Increase
Net OPEB Liability	\$ 45,868,260	\$ 53,375,981	\$ 62,832,223

#### *OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plan*

For the year ended June 30, 2018, the City recognized OPEB expense of \$2,570,464. At June 30, 2018, the City reported deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Inflows of Resources
Changes in assumptions	286,008
Differences between expected and actual experience	153,838
Total	\$ 439,846



**City of Fraser**

Notes to the Financial Statements

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending	
June 30	Amount
2019	\$ (268,593)
2020	(171,253)

**Note 11 - Net Investment in Capital Assets**

Following is a summary of net investment in capital assets as presented in the government-wide statement of net position:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>	<b>Component Unit</b>
<b>Net Investment in Capital Assets</b>				
Capital Assets, net	\$ 19,065,424	\$ 31,899,579	\$ 50,965,003	\$ 113,162
Long-term Debt	(4,047,093)	(18,693,438)	(22,740,531)	-
Unspent Bond Proceeds	-	(86,781)	(86,781)	-
Restricted Cash in Street Fund	92,832	-	92,832	-
<b>Total Net Investment in Capital Assets</b>	<b>\$ 15,111,163</b>	<b>\$ 13,119,360</b>	<b>\$ 28,230,523</b>	<b>\$ 113,162</b>

**City of Fraser**

Notes to the Financial Statements

**Note 12 - Fund Balances - Governmental Funds**

The City reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>
Nonspendable:			
Prepays	\$ 122,438	\$ 19,308	\$ 141,746
Restricted for:			
Major & Local Streets	-	1,139,631	1,139,631
Health and Welfare	-	692,913	692,913
Public Safety	-	1,373,182	1,373,182
Debt Service	-	481,606	481,606
Capital Projects	-	122,042	122,042
Total Restricted	-	3,809,374	3,809,374
Unassigned	3,683,096	-	3,683,096
<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 3,805,534</b>	<b>\$ 3,828,682</b>	<b>\$ 7,634,216</b>

**Note 13 - Tax Abatements**

Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2018, the City's property taxes were reduced by \$253,505 under this program.

**Note 14 - Change in Accounting Principle**

During the current year, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the government-wide statements now include an increase in OPEB liability by \$17,311,225 that corresponded with a

## City of Fraser

### Notes to the Financial Statements

decrease in net position of the same amount. Business-type activities statements now include an increase in OPEB liability by \$4,919,019 that corresponded with a decrease in net position of the same amount.

In addition, there was an adjustment to the beginning balance of capital assets within the motor pool internal service fund which resulted in a decrease in capital assets by \$15,077 that corresponded with a decrease in net position of the same amount.

Lastly, the City reclassified the Library fund from a special revenue fund to a discretely presented component unit resulting in a decrease in governmental activities net position of \$214,734.

The following table shows the changes described above and includes the adjustments of net position indicated above:

	<u>Motor Pool</u>	<u>Governmental Activities</u>	<u>Water and Sewer Fund</u>	<u>Business-type Activities</u>	<u>Component Unit - Library</u>
Net Position - June 30, 2017, as previously reported					
As previously reported, including reclassification	\$ 771,244	\$ (28,878,229)	\$ 10,792,141	\$ 13,083,800	\$ -
Library reclassification to component unit	-	(214,734)	-	-	214,734
Adjustment of capital assets	(15,077)	(15,077)	-	-	-
Adoption of GASB Statement No. 75	-	(17,311,225)	(4,919,019)	(4,919,019)	-
Net Position - June 30, 2017 - as restated	<u>\$ 756,167</u>	<u>\$ (46,419,265)</u>	<u>\$ 5,873,122</u>	<u>\$ 8,164,781</u>	<u>\$ 214,734</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Fraser**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Consolidated General Fund**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
<b>Revenues</b>				
Property Taxes	\$ 10,818,244	\$ 9,753,680	\$ 9,765,727	\$ 12,047
Licenses and Permits	457,300	299,553	303,057	3,504
Intergovernmental Revenues	2,202,991	2,802,370	2,778,200	(24,170)
Charges for Services	462,790	857,242	846,948	(10,294)
Fines and Forfeitures	667,800	573,098	611,334	38,236
Interest and Rents	8,000	28,512	36,328	7,816
Other Revenues	888,145	638,983	662,515	23,532
<b>Total Revenues</b>	<b>15,505,270</b>	<b>14,953,438</b>	<b>15,004,109</b>	<b>50,671</b>
<b>Expenditures</b>				
<b>General Government</b>				
City Council	101,130	108,442	63,892	44,550
City Administration	406,410	288,048	239,581	48,467
City Clerk	244,200	235,550	211,555	23,995
District Court	575,765	604,125	559,660	44,465
Finance	612,479	498,948	351,992	146,956
Assessor	105,650	106,472	102,865	3,607
Information Technology	332,600	344,109	268,231	75,878
Legal	106,000	130,000	121,116	8,884
Building and Grounds	409,800	231,464	222,918	8,546
<b>Total General Government</b>	<b>2,894,034</b>	<b>2,547,158</b>	<b>2,141,810</b>	<b>405,348</b>
<b>Public Safety</b>				
Public Safety	7,209,110	7,120,856	6,602,725	518,131
Building Inspections	465,030	430,376	368,857	61,519
<b>Total Public Safety</b>	<b>7,674,140</b>	<b>7,551,232</b>	<b>6,971,582</b>	<b>579,650</b>
<b>Public Works</b>	1,660,570	1,433,029	1,270,630	162,399
<b>Community and Economic Development</b>				
Planning Committee	29,300	47,408	42,788	4,620
<b>Recreation and Culture</b>				
City Parks and Recreation	699,210	640,024	564,764	75,260
Historical Commission	37,460	20,235	13,699	6,536
Library	136,920	60,270	42,736	17,534
<b>Total Recreation and Culture</b>	<b>873,590</b>	<b>720,529</b>	<b>621,199</b>	<b>99,330</b>
<b>Other</b>				
Other	69,000	--	--	--
Retiree Health Insurance Contributions	1,550,000	1,826,180	1,527,401	298,779
Refunds and Reimbursements	307,000	285,302	257,678	27,624
<b>Total Other</b>	<b>1,926,000</b>	<b>2,111,482</b>	<b>1,785,079</b>	<b>326,403</b>
<b>Capital Outlay</b>	262,500	284,312	271,943	12,369
<b>Debt Service</b>	89,000	110,400	109,305	1,095
<b>Total Expenditures</b>	<b>15,409,134</b>	<b>14,805,550</b>	<b>13,214,336</b>	<b>1,591,214</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	96,136	147,888	1,789,773	1,641,885
<b>Net Change in Fund Balance</b>	<b>96,136</b>	<b>147,888</b>	<b>1,789,773</b>	<b>1,641,885</b>
<i>Fund Balance at Beginning of Period</i>	2,015,761	2,015,761	2,015,761	--
<b>Fund Balance at End of Period</b>	<b>\$ 2,111,897</b>	<b>\$ 2,163,649</b>	<b>\$ 3,805,534</b>	<b>\$ 1,641,885</b>

**City of Fraser**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Four Calendar Years**

	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service Cost	\$ 881,648	\$ 894,748	\$ 859,087	\$ 896,348
Interest	4,509,171	4,163,698	3,768,012	3,636,330
Changes in Benefit Terms	(380,513)	488,772	(852)	-
Differences Between Expected and Actual Experience	(829,041)	2,371,775	1,095,026	-
Changes in Assumptions	-	-	2,184,098	-
Benefit Payments, Including Refunds	(3,651,748)	(3,536,304)	(3,869,714)	(1,961,048)
Other	(1)	(2)	2,150,605	-
<b>Net Change in Pension Liability</b>	<u>529,516</u>	<u>4,382,687</u>	<u>6,186,262</u>	<u>2,571,630</u>
<i>Total Pension Liability - Beginning</i>	<u>57,749,685</u>	<u>53,366,998</u>	<u>47,180,736</u>	<u>44,609,106</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 58,279,201</u>	<u>\$ 57,749,685</u>	<u>\$ 53,366,998</u>	<u>\$ 47,180,736</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 2,153,010	\$ 2,039,477	\$ 3,407,010	\$ 878,683
Contributions - Member	508,697	349,173	744,496	149,899
Net Investment Income	3,750,994	2,981,535	(425,297)	348,982
Benefit Payments, Including Refunds	(3,651,748)	(3,536,304)	(3,869,714)	(1,961,048)
Administrative Expenses	(59,395)	(58,817)	(60,463)	(19,181)
Other	-	(1)	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<u>2,701,558</u>	<u>1,775,063</u>	<u>(203,968)</u>	<u>(602,665)</u>
<i>Plan Fiduciary Net Position - Beginning</i>	<u>28,741,299</u>	<u>26,966,236</u>	<u>27,170,204</u>	<u>27,772,869</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 31,442,857</u>	<u>\$ 28,741,299</u>	<u>\$ 26,966,236</u>	<u>\$ 27,170,204</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 26,836,344	\$ 29,008,386	\$ 26,400,762	\$ 20,010,532
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	54%	50%	51%	58%
Covered Payroll	\$ 4,892,530	\$ 5,053,190	\$ 4,824,059	\$ 5,019,636
Net Pension Liability as a Percentage of Covered Payroll	549%	574%	547%	399%

\* Built prospectively upon implementation of GASB 68

**City of Fraser**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Last Five Fiscal Years**

	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 1,313,472	\$ 2,140,225	\$ 2,010,203	\$ 2,383,976	\$ 1,923,228
Contributions in Relation to the Actuarially Determined Contribution	2,041,503	2,486,713	2,414,393	1,633,298	1,531,586
Contribution Deficiency (Excess)	<u>\$ (728,031)</u>	<u>\$ (346,488)</u>	<u>\$ (404,190)</u>	<u>\$ 750,678</u>	<u>\$ 391,642</u>
Covered Payroll	6,250,825	5,478,174	4,952,333	5,019,636	5,092,610
Contributions as a Percentage of Covered Payroll	33%	45%	49%	33%	30%

*Notes*

**Valuation Date**

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in wh

**Methods and assumptions used to determine contribution rates**

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of pay, open
Remaining amortization period	10 - 21 years depending on division
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement Age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the 2014 Grouped Annuity Mortality

**City of Fraser**  
**Required Supplementary Information**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**Last Fiscal Year**

	2018
<b>Total OPEB Liability</b>	
Service Cost	\$ 972,690
Interest	1,866,367
Differences Between Expected and Actual Experience	(247,781)
Changes in Assumptions	(460,659)
Benefit Payments, Including Refunds	(1,388,659)
<b><i>Net Change in total OPEB Liability</i></b>	<b>741,958</b>
<i>Total OPEB Liability - Beginning</i>	52,634,023
<b><i>Total OPEB Liability - Ending (a)</i></b>	<b>\$ 53,375,981</b>
 <b>Plan Fiduciary Net Position</b>	
Employer Contributions	\$ 1,388,659
Benefit Payments, Including Refunds	(1,388,659)
Administrative Expenses	-
<b><i>Net Change in Plan Fiduciary Net Position</i></b>	<b>-</b>
<i>Plan Fiduciary Net Position - Beginning</i>	-
<b><i>Plan Fiduciary Net Position - Ending (b)</i></b>	<b>\$ -</b>
 <b><i>Net OPEB Liability - Ending (a) - (b)</i></b>	<b>\$ 53,375,981</b>
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0%
 Covered Payroll	\$ 4,416,566
 Net OPEB Liability as a Percentage of Covered Payroll	1209%

\* Built prospectively upon implementation of GASB 75



**City of Fraser  
Required Supplementary Information  
Schedule of Contributions - OPEB  
Last Fiscal Year**

	2018
Actuarially Determined Contribution	\$ 3,597,282
Contributions in Relation to the Actuarially Determined Contribution	1,388,659
Contribution Deficiency (Excess)	\$ 2,208,623
 Covered Payroll	\$ 4,416,566
 Contributions as a Percentage of Covered Payroll	31%

*Notes*

**Valuation Date: June 30, 2018**

**Methods and assumptions used to determine contribution rates**

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	20 years, closed
Asset Valuation Method	There are no assets as of the measurement date.
Price Inflation	2.50%
Wage Inflation	4.00%
Salary Increases	4.00% to 17.00%
Investment Rate of Return	4.50%, net of OPEB plan investment expense
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	The RP-2000 Mortality Combined Healthy Tables projected 20 years with U.S. Projection Scale BB.
Health Care Trend Rates	Initial trend of 9.00% gradually decreasing to an ultimate trend rate of 4.00% in year 10
Excise Tax	No load was applied in connection with the "Cadillac" tax.
Aging Factors	Based on an internal GRS study using several pricing manuals from National Health Care Consultant groups and incorporating analysis and data from an SOA survey regarding aging practices used in health care valuations.

*\* Built prospectively upon implementation of GASB 75*

## **OTHER SUPPLEMENTARY INFORMATION**

**City of Fraser  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018**

	<b>Special Revenue</b>				
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Ambulance</b>	<b>Drug Forfeiture</b>	<b>Gambling Forfeiture</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 512,685	\$ 444,843	\$ 700,804	\$ 205,603	\$ 939,633
Restricted Cash and Cash Equivalents	--	--	--	--	--
Accounts Receivable	--	--	2,204	21,403	207,799
Due from Other Governmental Units	136,271	58,815	545	--	--
Prepays	5,873	5,873	7,562	--	--
<b>Total Assets</b>	<b>\$ 654,829</b>	<b>\$ 509,531</b>	<b>\$ 711,115</b>	<b>\$ 227,006</b>	<b>\$ 1,147,432</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 5,543	\$ 2,686	\$ 1,261	\$ 1,256	\$ --
Accrued Liabilities	2,645	2,109	9,379	--	--
Due to Other Governmental Units	--	--	--	--	--
<b>Total Liabilities</b>	<b>8,188</b>	<b>4,795</b>	<b>10,640</b>	<b>1,256</b>	<b>--</b>
<b>FUND BALANCE</b>					
Nonspendable	5,873	5,873	7,562	--	--
Restricted	640,768	498,863	692,913	225,750	1,147,432
Unassigned	--	--	--	--	--
<b>Total Fund Balance</b>	<b>646,641</b>	<b>504,736</b>	<b>700,475</b>	<b>225,750</b>	<b>1,147,432</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 654,829</b>	<b>\$ 509,531</b>	<b>\$ 711,115</b>	<b>\$ 227,006</b>	<b>\$ 1,147,432</b>

**City of Fraser  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018**

	<u>Debt Service</u>			<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>General Debt Service</u>	<u>2015 General Obligation Fund</u>	<u>Special Assessment Fund</u>	<u>2015 Street Bonds Construction</u>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 307,302	\$ 172,424	\$ 31,443	\$ --	\$ 3,314,737
Restricted Cash and Cash Equivalents	--	--	--	93,088	93,088
Accounts Receivable	--	--	--	--	231,406
Due from Other Governmental Units	737	1,143	--	--	197,511
Prepays	--	--	--	--	19,308
<b><i>Total Assets</i></b>	<b><u>\$ 308,039</u></b>	<b><u>\$ 173,567</u></b>	<b><u>\$ 31,443</u></b>	<b><u>\$ 93,088</u></b>	<b><u>\$ 3,856,050</u></b>
<b>LIABILITIES</b>					
Accounts Payable	\$ --	\$ --	\$ --	\$ 256	\$ 11,002
Accrued Liabilities	--	--	--	--	14,133
Due to Other Governmental Units	--	--	2,233	--	2,233
<b><i>Total Liabilities</i></b>	<b><u>--</u></b>	<b><u>--</u></b>	<b><u>2,233</u></b>	<b><u>256</u></b>	<b><u>27,368</u></b>
<b>FUND BALANCE</b>					
Nonspendable	--	--	--	--	19,308
Restricted	308,039	173,567	29,210	92,832	3,809,374
Unassigned	--	--	--	--	--
<b><i>Total Fund Balance</i></b>	<b><u>308,039</u></b>	<b><u>173,567</u></b>	<b><u>29,210</u></b>	<b><u>92,832</u></b>	<b><u>3,828,682</u></b>
<b><i>Total Liabilities and Fund Balance</i></b>	<b><u>\$ 308,039</u></b>	<b><u>\$ 173,567</u></b>	<b><u>\$ 31,443</u></b>	<b><u>\$ 93,088</u></b>	<b><u>\$ 3,856,050</u></b>

**City of Fraser**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	<b>Special Revenue</b>				
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Ambulance</b>	<b>Drug Forfeiture</b>	<b>Gambling Forfeiture</b>
<b>Revenues</b>					
Taxes	\$ --	\$ --	\$ 434,582	\$ --	\$ --
Intergovernmental Revenues	862,723	401,797	40,474	--	11,430
Charges for Services	--	--	350,434	--	--
Fines and Forfeitures	--	--	--	96,047	239,966
Interest and Rents	2,002	1,637	3,763	792	9,725
Other Revenues	--	350	--	29,028	--
<b>Total Revenues</b>	<b>864,725</b>	<b>403,784</b>	<b>829,253</b>	<b>125,867</b>	<b>261,121</b>
<b>Expenditures</b>					
Public Safety	--	--	--	33,109	15,157
Public Works	458,181	287,514	--	--	--
Health and Welfare	--	--	617,492	--	--
Capital Outlay	--	--	25,376	--	--
Debt Service - Principal	--	--	--	--	--
Debt Service - Interest	--	--	--	--	--
<b>Total Expenditures</b>	<b>458,181</b>	<b>287,514</b>	<b>642,868</b>	<b>33,109</b>	<b>15,157</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>406,544</b>	<b>116,270</b>	<b>186,385</b>	<b>92,758</b>	<b>245,964</b>
<b>Other Financing Sources (Uses)</b>					
Transfers In	--	150,000	--	--	--
Transfers Out	(150,000)	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<b>(150,000)</b>	<b>150,000</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Net Change in Fund Balance</b>	<b>256,544</b>	<b>266,270</b>	<b>186,385</b>	<b>92,758</b>	<b>245,964</b>
<i>Fund Balance at Beginning of Period</i>	390,097	238,466	514,090	132,992	901,468
<b>Fund Balance at End of Period</b>	<b>\$ 646,641</b>	<b>\$ 504,736</b>	<b>\$ 700,475</b>	<b>\$ 225,750</b>	<b>\$ 1,147,432</b>

**City of Fraser**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2018**

	<u>Debt Service</u>			<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>General Debt Service</u>	<u>2015 General Obligation Fund</u>	<u>Special Assessment Fund</u>	<u>2015 Street Bonds Construction</u>	
<b>Revenues</b>					
Taxes	\$ 584,076	\$ 999,128	\$ --	\$ --	\$ 2,017,786
Intergovernmental Revenues	105,078	--	--	--	1,421,502
Charges for Services	--	--	--	--	350,434
Fines and Forfeitures	--	--	--	--	336,013
Interest and Rents	1,251	695	152	1,196	21,213
Other Revenues	--	--	--	--	29,378
<b><i>Total Revenues</i></b>	<b>690,405</b>	<b>999,823</b>	<b>152</b>	<b>1,196</b>	<b>4,176,326</b>
<b>Expenditures</b>					
Public Safety	--	--	--	--	48,266
Public Works	--	--	--	18,008	763,703
Health and Welfare	--	--	--	--	617,492
Capital Outlay	--	--	--	831,422	856,798
Debt Service - Principal	490,000	845,000	--	--	1,335,000
Debt Service - Interest	44,310	72,150	--	--	116,460
<b><i>Total Expenditures</i></b>	<b>534,310</b>	<b>917,150</b>	<b>--</b>	<b>849,430</b>	<b>3,737,719</b>
<b><i>Excess of Revenues Over (Under) Expenditures</i></b>	<b>156,095</b>	<b>82,673</b>	<b>152</b>	<b>(848,234)</b>	<b>438,607</b>
<b>Other Financing Sources (Uses)</b>					
Transfers In	--	--	--	--	150,000
Transfers Out	--	--	--	--	(150,000)
<b><i>Net Other Financing Sources (Uses)</i></b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b><i>Net Change in Fund Balance</i></b>	<b>156,095</b>	<b>82,673</b>	<b>152</b>	<b>(848,234)</b>	<b>438,607</b>
<i>Fund Balance at Beginning of Period</i>	151,944	90,894	29,058	941,066	3,390,075
<b><i>Fund Balance at End of Period</i></b>	<b>\$ 308,039</b>	<b>\$ 173,567</b>	<b>\$ 29,210</b>	<b>\$ 92,832</b>	<b>\$ 3,828,682</b>

**City of Fraser**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2018**

	<u>Internal Service</u>		<u>Total Internal Service Funds</u>
	<u>Medical Self Insurance</u>	<u>Motor Pool</u>	
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 402,892	\$ 735,575	\$ 1,138,467
Prepays	27,809	5,370	33,179
<b>Total Current Assets</b>	<u>430,701</u>	<u>740,945</u>	<u>1,171,646</u>
<i>Noncurrent Assets</i>			
Capital Assets Being Depreciated, net	--	223,788	223,788
<b>Total Assets</b>	<u>430,701</u>	<u>964,733</u>	<u>1,395,434</u>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	742	9,851	10,593
Accrued Liabilities	--	4,977	4,977
Current Portion of Long-term Debt	--	13,557	13,557
<b>Total Current Liabilities</b>	<u>742</u>	<u>28,385</u>	<u>29,127</u>
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	76,026	76,026
<b>Total Liabilities</b>	<u>742</u>	<u>104,411</u>	<u>105,153</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	--	134,205	134,205
<i>Unrestricted</i>	429,959	726,117	1,156,076
<b>Total Net Position</b>	<u>\$ 429,959</u>	<u>\$ 860,322</u>	<u>\$ 1,290,281</u>

**City of Fraser**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Internal Service Funds**  
**For the Year Ended June 30, 2018**

	<u>Internal Service</u>		<u>Total Internal Service Funds</u>
	<u>Medical Self Insurance</u>	<u>Motor Pool</u>	
<b>Operating Revenues</b>			
Charges for Services	\$ 619,886	\$ 868,578	\$ 1,488,464
<b><i>Total Operating Revenues</i></b>	<u>619,886</u>	<u>868,578</u>	<u>1,488,464</u>
<b>Operating Expenses</b>			
Salaries	--	65,960	65,960
Fringe Benefits	--	35,822	35,822
Administrative Charges	--	509	509
Materials and Supplies	--	90,809	90,809
Contractual Services	--	229,754	229,754
Repairs and Maintenance	--	261,766	261,766
Claims Paid	556,729	--	556,729
Miscellaneous	--	1,584	1,584
Depreciation	--	93,087	93,087
<b><i>Total Operating Expenses</i></b>	<u>556,729</u>	<u>779,291</u>	<u>1,336,020</u>
<b><i>Operating Income (Loss)</i></b>	<u>63,157</u>	<u>89,287</u>	<u>152,444</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest and Other Revenues	44,191	17,253	61,444
Interest Expense	--	(2,385)	(2,385)
<b><i>(Expenses)</i></b>	<u>44,191</u>	<u>14,868</u>	<u>59,059</u>
<b><i>Change In Net Position</i></b>	<b>107,348</b>	<b>104,155</b>	<b>211,503</b>
<i>Net Position at Beginning of Period</i>	322,611	756,167	1,078,778
<b><i>Net Position at End of Period</i></b>	<u><b>\$ 429,959</b></u>	<u><b>\$ 860,322</b></u>	<u><b>\$ 1,290,281</b></u>



**City of Fraser**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2018**

	<u>Internal Service</u>		<u>Total Internal Service Funds</u>
	<u>Medical Self Insurance</u>	<u>Motor Pool</u>	
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 749,312	\$ 872,496	\$ 1,621,808
Payments to Suppliers	(304,911)	(613,619)	(918,530)
Payments to Employees	-	(101,530)	(101,530)
<b>Net Cash Provided by Operating Activities</b>	<u>444,401</u>	<u>157,347</u>	<u>601,748</u>
<b>Cash Flows from Noncapital and Related Financing Activities</b>			
Change in Interfund Balances	(85,700)	-	(85,700)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(85,700)</u>	<u>-</u>	<u>(85,700)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Prior Period Adjustment relating to Capital Assets	-	(15,077)	(15,077)
Proceeds from Sale of Capital Assets	-	10,641	10,641
Principal and Interest Paid on Capital Debt	-	(17,006)	(17,006)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>-</u>	<u>(21,442)</u>	<u>(21,442)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Received on Investments	44,191	17,253	61,444
<b>Net Cash from Investing Activities</b>	<u>44,191</u>	<u>17,253</u>	<u>61,444</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	402,892	153,158	556,050
Cash and Cash Equivalents Beginning of Period	-	582,417	582,417
<b>Cash and Cash Equivalents End of Period</b>	<u>\$ 402,892</u>	<u>\$ 735,575</u>	<u>\$ 1,138,467</u>
<b>Reconciliation to Statement of Net Position</b>			
Cash and Cash Equivalents	\$ 402,892	\$ 735,575	\$ 1,138,467
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
<b>Operating Income (Loss)</b>	63,157	89,287	152,444
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:</b>			
<b>Cash from Operating Activities:</b>			
Depreciation	-	93,087	93,087
<b>Changes in Assets and Liabilities:</b>			
Receivables	129,426	3,918	133,344
Prepaid Items	251,076	(5,370)	245,706
Accounts Payable	742	(23,827)	(23,085)
Accrued Liabilities	-	2,039	2,039
Compensated Absences	-	(1,787)	(1,787)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 444,401</u>	<u>\$ 157,347</u>	<u>\$ 601,748</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the 'City'), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 27, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Galbridge & Company".

Grand Rapids, Michigan  
December 27, 2018

December 27, 2018

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the "City") for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 29, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* during 2018. Refer to Note 14 to the financial statements for more information on how implementing the new OPEB standard impacted the City's financial statements as of and during the year ended June 30, 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the City's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- Management’s estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management’s estimate of the insurance claims incurred but not reported is based on information provided by the entity’s third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

The financial statement disclosures are neutral, consistent, and clear.

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

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 27, 2018.

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

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional

standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, pension and OPEB schedules, and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and the combining internal service fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the governing body and management of the City of Fraser, Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Gabridge and Company, PLC