

**CITY OF KEEGO HARBOR  
Oakland County, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended  
June 30, 2012**



CITY OF KEEGO HARBOR  
For the Year Ended June 30, 2012

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CITY OF KEEGO HARBOR  
For the Year Ended June 30, 2012

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FINANCIAL SECTION





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## Independent Auditor's Report

October 8, 2012

To the Honorable Mayor and  
Members of the City Council  
City of Keego Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keego Harbor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor as of June 30, 2012, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.



Honorable Mayor and  
Members of the City Council  
City of Keego Harbor, Michigan

We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keego Harbor's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post Smythe Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants



## Management's Discussion and Analysis

### Overview of the Financial Statements

The City's annual report consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements are designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

The statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The statement of activities provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; business-type funds, which account for functions that are intended to recover all or a significant portion of their costs through user fees and charges, and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as debt principal payments, accrued interest, and accrued employee leave time.

## Financial Position

The following table shows in a condensed format, the net assets of the City's governmental activities as of June 30, 2012:

### City of Keego Harbor - Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 1,638,651	\$ 1,461,131	\$ 116,950	\$ 66,471	\$ 1,755,601	\$ 1,527,602
Capital Assets	3,685,522	3,587,256	-	-	3,685,522	3,587,256
Total Assets	5,324,173	5,048,387	116,950	66,471	5,441,123	5,114,858
Long-term Liabilities						
Outstanding	2,360,478	2,376,403	-	-	2,360,478	2,376,403
Other Liabilities	352,671	182,578	-	-	352,671	182,578
Total Liabilities	2,713,149	2,558,981	-	-	2,713,149	2,558,981
Net Assets:						
Invested in Capital Assets, net of related debt	1,590,522	1,397,256	-	-	1,590,522	1,397,256
Restricted	519,175	554,375	-	-	519,175	554,375
Unrestricted	501,327	537,775	116,950	66,471	618,277	604,246
Total Net Assets	\$ 2,611,024	\$ 2,489,406	\$ 116,950	\$ 66,471	\$ 2,727,974	\$ 2,555,877

The following table shows the changes of the net assets during the year ended June 30, 2012:

City of Keego Harbor - Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services	\$ 448,065	\$ 378,736	\$ 49,898	\$ 43,879	\$ 497,963	\$ 422,615
Operating Grants & Contributions	165,627	151,562	-	-	165,627	151,562
Capital Grants & Contributions	71,470	448,364	-	-	71,470	448,364
General Revenues:						
Property Taxes	1,344,034	1,424,983	-	-	1,344,034	1,424,983
State Shared Revenues	218,577	216,936	-	-	218,577	216,936
Franchise Fees	39,757	46,308	-	-	39,757	46,308
Unrestricted Investment Earnings	12,168	12,669	581	75	12,749	12,744
<b>Total Revenues</b>	<b>2,299,698</b>	<b>2,679,558</b>	<b>50,479</b>	<b>43,954</b>	<b>2,350,177</b>	<b>2,723,512</b>
Program Expenses						
General Government	480,787	525,018	-	-	480,787	525,018
Public Safety	1,021,682	995,275	-	-	1,021,682	995,275
Public Works	469,508	458,979	-	-	469,508	458,979
Community Development	72,572	425,464	-	-	72,572	425,464
Recreation and Cultural	31,271	59,785	-	-	31,271	59,785
Interest on Long-Term Debt	92,785	164,470	-	-	92,785	164,470
Loss on Disposal of Assets	9,475	-	-	-	9,475	-
Water and Sewer	-	-	-	-	-	-
<b>Total Expenses</b>	<b>2,178,080</b>	<b>2,628,991</b>	<b>-</b>	<b>-</b>	<b>2,178,080</b>	<b>2,628,991</b>
<b>Change in Net Assets</b>	<b>\$ 121,618</b>	<b>\$ 50,567</b>	<b>\$ 50,479</b>	<b>\$ 43,954</b>	<b>\$ 172,097</b>	<b>\$ 94,521</b>

The City had an increase of \$121,618 in net assets in its governmental activities for the fiscal year ended June 30, 2012, compared to a \$50,567 increase for the fiscal year ended June 30, 2011. Contributing to the current year increase was a decrease in personnel costs as some positions that were vacated were not replaced or were combined with other positions.

## **Governmental Activities**

General Fund revenues exceeded expenditures in fiscal year 2012 by \$106,007, as compared to revenues exceeded expenditures in fiscal year 2011 by \$151,551. Revenues for fiscal year 2012 decreased by \$447,614 due to \$448,364 of Neighborhood Stabilization Program grant revenues received in the prior year. Total expenses decreased by \$1,521,287, as the prior year included the payoff of an installment loan of \$1,068,579, and Neighborhood Stabilization Program expenditures of \$407,955.

The Library Special Revenue Fund was established to account for the dedicated library millage of .30 mills which was approved by the City residents at the August 2010 election and was levied beginning in July 2011.

## **Analysis of Individual Funds**

Of the City's governmental funds, the General, Major Streets, Capital Projects, and TIFA Funds account for all significant expenditures.

The General Fund ended the fiscal year with an increase to its fund balance in the amount of \$106,007.

## **Capital Assets**

During fiscal year 2012, the increase in capital assets reflects the completion of the 2011 road construction project, a police boat, and police vehicles.

## **Long-term Debt**

At the end of the current fiscal year, the City had total general obligation bond debt outstanding of \$2,095,000. The City's total bonded debt decreased by \$95,000 during the current fiscal year, as a result of debt principal payments made.



## **Economic Factors**

Keego Harbor is experiencing limited redevelopment in its residential sector and the commercial sector is stagnant. Keego Harbor, like most seasoned cities, depends on growth in property values to offset growth in expenditures, rather than new construction. Property taxes account for 62% of General Fund revenues for fiscal year 2012 as compared to 55% last fiscal year.

A residential and commercial redevelopment friendly atmosphere will be essential to the City's long term fiscal viability. This does not mean that we have to abandon our standards, but it does mean that we have to be open to productive change. The City needs to find and maintain that delicate balance between protecting our long term residents and welcoming new construction.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2012-2013 fiscal year based on the best information known at the time. The City continues to experience increases in these costs. The City is actively seeking to cut costs wherever possible.

## **Contacting the City's Financial Management**

This audit of the revenues and expenditures of the City is designed to depict the financial health of the City and demonstrate the uses of City resources. The audit also provides financial information to the City's investors and creditors.

If you have any questions about this report contact the City Clerk, City of Keego Harbor, 2025 Beechmont, Keego Harbor, Michigan 48320.



BASIC FINANCIAL STATEMENTS



**CITY OF KEEGO HARBOR**  
**Statement of Net Assets**  
**Governmental Activities**  
**June 30, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 1,454,628	\$ 109,915	\$ 1,564,543
Receivables (net of allowance for uncollectibles):			
Accounts	8,958	-	8,958
Taxes	12,273	-	12,273
Due from Other Governmental Units	63,284	7,035	70,319
Prepaid Expenses	99,508	-	99,508
Capital Assets (Net of Accumulated Depreciation):			
Nondepreciable	745,901	-	745,901
Depreciable	2,939,621	-	2,939,621
Total Assets	<u>5,324,173</u>	<u>116,950</u>	<u>5,441,123</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	209,469	-	209,469
Accrued Liabilities	79,272	-	79,272
Accrued Interest Payable	10,782	-	10,782
Deposits	40,875	-	40,875
Deferred Revenue	12,273	-	12,273
Noncurrent Liabilities:			
Other Post Employment Benefit Liability	230,746	-	230,746
Compensated Absences	34,732	-	34,732
Bonds Payable, due within one year	105,000	-	105,000
Bonds Payable, due in more than one year	1,990,000	-	1,990,000
Total Liabilities	<u>2,713,149</u>	<u>-</u>	<u>2,713,149</u>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, net of related debt	1,590,522	-	1,590,522
Restricted for:			
Streets and Highways	278,557	-	278,557
Tax Increment Financing Authority	203,854	-	203,854
Debt Service	3,753	-	3,753
Construction	26,201	-	26,201
Police Department Drug Forfeiture	3,383	-	3,383
Veterans Memorial	3,427	-	3,427
Unrestricted	501,327	116,950	618,277
Total Net Assets	<u>\$ 2,611,024</u>	<u>\$ 116,950</u>	<u>\$ 2,727,974</u>

**CITY OF KEEGO HARBOR**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b><u>Functions/Programs</u></b>				
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 480,787	\$ 130,634	\$ 182	\$ -
Public Safety	1,021,682	202,271	1,136	-
Public Works	469,508	93,987	157,497	-
Community Development	72,572	18,753	4,033	71,470
Recreation and Cultural	31,271	2,420	2,779	-
Interest on Long-Term Debt	92,785	-	-	-
Total Governmental Activities	2,168,605	448,065	165,627	71,470
Business-type Activities:				
Water & Sewer	-	49,898	-	-
<b>Total Primary Government</b>	<b>\$ 2,168,605</b>	<b>\$ 497,963</b>	<b>\$ 165,627</b>	<b>\$ 71,470</b>

General Revenues:  
Property Taxes  
State Shared Revenue  
Franchise Fees  
Unrestricted Investment Earnings  
Loss on Sale of Assets  
Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (349,971)	\$ -	\$ (349,971)
(818,275)	-	(818,275)
(218,024)	-	(218,024)
21,684	-	21,684
(26,072)	-	(26,072)
(92,785)	-	(92,785)
<u>(1,483,443)</u>	<u>-</u>	<u>(1,483,443)</u>
<u>-</u>	<u>49,898</u>	<u>49,898</u>
<u>(1,483,443)</u>	<u>49,898</u>	<u>(1,433,545)</u>
1,344,034	-	1,344,034
218,577	-	218,577
39,757	-	39,757
12,168	581	12,749
(9,475)	-	(9,475)
<u>1,605,061</u>	<u>581</u>	<u>1,605,642</u>
121,618	50,479	172,097
<u>2,489,406</u>	<u>66,471</u>	<u>2,555,877</u>
<u>\$ 2,611,024</u>	<u>\$ 116,950</u>	<u>\$ 2,727,974</u>

**CITY OF KEEGO HARBOR**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

	<u>General</u> <u>Fund</u>	<u>Major</u> <u>Streets</u> <u>Fund</u>	<u>Local</u> <u>Streets</u> <u>Fund</u>	<u>TIFA</u> <u>Fund</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 942,777	\$ 179,212	\$ 79,277	\$ 213,828
Receivables (net of allowance for uncollectibles):				
Accounts	8,958	-	-	-
Taxes	12,273	-	-	-
Due from Other Units	38,125	17,679	7,480	-
Prepaid Expenditures	99,508	-	-	-
Total Assets	<u>\$ 1,101,641</u>	<u>\$ 196,891</u>	<u>\$ 86,757</u>	<u>\$ 213,828</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts Payable	\$ 188,251	\$ 567	\$ 4,524	\$ 9,974
Accrued and Other Liabilities	79,272	-	-	-
Deposits	40,875	-	-	-
Deferred Revenue	12,273	-	-	-
Total Liabilities	<u>320,671</u>	<u>567</u>	<u>4,524</u>	<u>9,974</u>
Fund Balances:				
Nonspendable	99,508	-	-	-
Restricted for:				
Veterans Memorial	-	-	-	-
Police Drug Forfeiture	3,383	-	-	-
Streets	-	196,324	82,233	-
Tax Increment Financing Authority	-	-	-	203,854
Debt Service	-	-	-	-
Construction	-	-	-	-
Unassigned	678,079	-	-	-
Total Fund Balances	<u>780,970</u>	<u>196,324</u>	<u>82,233</u>	<u>203,854</u>
Total Liabilities and Fund Balances	<u>\$ 1,101,641</u>	<u>\$ 196,891</u>	<u>\$ 86,757</u>	<u>\$ 213,828</u>

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Other Post Employment Benefits Liability

Net Assets of Governmental Activities



Other Governmental Funds	Total Governmental Funds
\$ 39,534	\$ 1,454,628
-	8,958
-	12,273
-	63,284
-	99,508
<u>\$ 39,534</u>	<u>\$ 1,638,651</u>

\$ 6,153	\$ 209,469
-	79,272
-	40,875
-	12,273
<u>6,153</u>	<u>341,889</u>

-	99,508
3,427	3,427
-	3,383
-	278,557
-	203,854
3,753	3,753
26,201	26,201
-	678,079
<u>33,381</u>	<u>1,296,762</u>
<u>\$ 39,534</u>	<u>\$ 1,638,651</u>

3,685,522
(2,140,514)
<u>(230,746)</u>
<u>\$ 2,611,024</u>

**CITY OF KEEGO HARBOR**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	<u>General</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>TIFA Fund</u>
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,198,180	\$ -	\$ -	\$ 120,443
Licenses and Permits	6,692	-	-	-
Intergovernmental:				
Federal, State and Local	299,778	105,385	52,112	-
Charges for Services	336,226	-	-	-
Fines and Forfeitures	29,847	-	-	-
Franchise Fees	39,757	-	-	-
Interest	7,698	1,605	255	2,121
Other	4,102	844	36,582	-
Total Revenues	<u>1,922,280</u>	<u>107,834</u>	<u>88,949</u>	<u>122,564</u>
<b><u>Expenditures</u></b>				
Current:				
General Government	375,421	-	-	-
Public Safety	929,712	-	-	-
Community Development	72,572	-	-	-
Public Works	299,194	33,059	40,226	41,857
Recreation and Cultural	2,972	-	-	-
Other	69,222	-	-	-
Debt Service:				
Principal	20,000	-	-	-
Interest and Other Charges	47,180	-	-	-
Capital Outlay	-	-	112,896	-
Total Expenditures	<u>1,816,273</u>	<u>33,059</u>	<u>153,122</u>	<u>41,857</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>106,007</u>	<u>74,775</u>	<u>(64,173)</u>	<u>80,707</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	-	-	64,127	-
Transfers Out	-	(64,127)	-	(122,500)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(64,127)</u>	<u>64,127</u>	<u>(122,500)</u>
Net Change in Fund Balances	106,007	10,648	(46)	(41,793)
Fund Balances - Beginning	<u>674,963</u>	<u>185,676</u>	<u>82,279</u>	<u>245,647</u>
Fund Balances - Ending	<u>\$ 780,970</u>	<u>\$ 196,324</u>	<u>\$ 82,233</u>	<u>\$ 203,854</u>

Other Governmental Funds	Total Governmental Funds
\$ 25,411	\$ 1,344,034
-	6,692
-	457,275
-	336,226
-	29,847
-	39,757
489	12,168
32,171	73,699
<u>58,071</u>	<u>2,299,698</u>
-	375,421
-	929,712
-	72,572
-	414,336
25,459	28,431
-	69,222
75,000	95,000
46,355	93,535
101,896	214,792
<u>248,710</u>	<u>2,293,021</u>
<u>(190,639)</u>	<u>6,677</u>
122,500	186,627
-	(186,627)
<u>122,500</u>	<u>-</u>
(68,139)	6,677
<u>101,520</u>	<u>1,290,085</u>
<u>\$ 33,381</u>	<u>\$ 1,296,762</u>

**CITY OF KEEGO HARBOR**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2012**

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

Net change in fund balances - total governmental funds	\$	6,677
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period:

Capital Outlay		214,792
Depreciation Expense		(107,051)
Loss on Sale of Assets		(9,475)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Principal Paid on General Obligation Bonds		95,000
Change in Accrued Interest Payable		750
Change in Compensated Absences Payable		(722)
Change in Other Post Employment Benefit Liability		(78,353)
		(78,353)

Change in net assets in governmental activities	\$	121,618
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**CITY OF KEEGO HARBOR**

**Statement of Net Assets**

**Proprietary Fund**

**June 30, 2012**

	<u>Enterprise Fund</u> <u>Water &amp; Sewer</u>
<b><u>ASSETS</u></b>	
Cash	\$ 109,915
Due from Other Governments	7,035
Total Assets	<u>116,950</u>
<b><u>NET ASSETS</u></b>	
Unrestricted	<u>116,950</u>
Total Net Assets	\$ <u><u>116,950</u></u>

**CITY OF KEEGO HARBOR**

**Statement of Revenues, Expenses and Changes in Fund Net Assets**

**Proprietary Fund**

**For the Year Ended June 30, 2012**

	<u>Enterprise Fund</u> <u>Water &amp; Sewer</u>
Operating Revenues:	
Charges for Services	\$ 49,898
Operating Expenses	<u>-</u>
Operating Income (Loss)	49,898
Non-Operating Revenues (Expenses):	
Interest Income	<u>581</u>
Net Income (Loss)	50,479
Net Assets, Beginning	<u>66,471</u>
Net Assets, Ending	\$ <u><u>116,950</u></u>

**CITY OF KEEGO HARBOR**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2012**

	<b>Enterprise Fund</b>
	<b>Water &amp; Sewer</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>	
Receipts from customers and users	\$ 49,898
Net Cash Provided by Operating Activities	49,898
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>	
Investment Income	581
Net Increase (Decrease) in Cash and Cash Equivalents	50,479
Cash and Cash Equivalents, Beginning	59,436
Cash and Cash Equivalents, Ending	\$ 109,915
<b><u>Reconciliation of Operating Income to Net Cash</u></b>	
<b><u>Provided (Used) by Operating Activities:</u></b>	
Operating Income (Loss)	\$ 49,898
Adjustments to Reconcile Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Due from Other Governments	-
Net Cash Provided by Operating Activities	\$ 49,898

**CITY OF KEEGO HARBOR**  
**Fiduciary Fund**  
**Statement of Assets and Liabilities**  
**June 30, 2012**

<b><u>ASSETS</u></b>	<b><u>Agency Fund</u></b>	<b><u>Tax Collection Agency Fund</u></b>
Cash	\$ 19,531	\$ 2,108
<b><u>LIABILITIES</u></b>		
Due to Skate Night	\$ 17,835	\$ -
Due to Carillon	566	-
Due to Garden Club	1,130	-
Due to Other	-	2,108
Total Liabilities	\$ 19,531	\$ 2,108





CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The Tri-City Fire Department along with the participating communities have entered into an agreement with the West Bloomfield Township Fire Department to provide fire and emergency services. During the current year, the City contributed approximately \$260,313 to the Tri-City Fire Department. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental Funds

The City reports the following major governmental funds:

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

The Major Street and Local Street Funds are special revenue funds used to account for the repair, maintenance, and construction of the City's streets as identified by the State of Michigan Department of Transportation.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Tax Increment Financing Authority Fund (TIFA) accounts for the financing of a road on behalf of the City's Major Streets Fund, and debt related to these projects and the new city hall/police facility construction. The activity is approved by the TIFA Board.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Capital Project Funds are used to account for capital improvement, equipment purchases, and construction activity funded by general revenues of the City.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the enterprise fund types.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City has one enterprise fund which is the Water and Sewer Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Fiduciary Funds

Agency Funds are used to account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, and when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. 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 "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). All trade and property tax receivables are shown as net of allowance for uncollectible amounts which are \$-0- at June 30, 2012.

3. Restricted Assets

The City's remaining bond proceeds are set aside for various upcoming debt service payments. These amounts have been classified as restricted.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

4. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	25-40
Furnishings, Fixtures, and Equipment	10-40
Vehicles	10-20

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, along with the City's employee policy manual, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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. Bond issuance costs are expensed in the year of issuance. Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

8. Fund Equity

In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

Committed – Amounts that have been formally set aside by the City Council for use for a specific purpose. Commitments are made and can be rescinded only via resolution of the City Council.

Assigned – Intent to spend resources on specific purposes expressed by the City Council.

Unassigned – This is the residual classification for the general fund. This classification represents fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

A. Budgetary Information – Continued

1. The City Charter requires one regular council meeting per month. Not later than the regular meeting in May, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the regular meeting in May.
3. Not later than the regular meeting in May, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund and the Special Revenue Fund budgets are adopted at the activity level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In fiscal year 2012, several budget amendments were made and are reflected in the financial statements.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no deficit fund balances as of June 30, 2012.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budgets for the General Fund and the Special Revenue Funds are adopted at the activity level. The City's expenditures exceeded the final budgeted amounts as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess of Expenditures Over Appropriations</u>
General Fund:			
Police	\$ 620,670	\$623,273	\$ 2,603
Professional Fees	51,700	59,632	7,932
Planning & Zoning	18,075	18,180	105
Street Lighting	52,100	52,213	113
TIFA Fund	19,736	41,857	22,121

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2012 are as follows:

Cumulative Shortfall at June 30, 2011	<u>\$ (393,095)</u>
Fees Collected in Fiscal Year 2012	43,128
Expenditures in Fiscal Year 2012	<u>(46,085)</u>
Revenues Over (Under) Expenditures	<u>( 2,957)</u>
Cumulative Shortfall at June 30, 2012	<u>\$ (396,052)</u>



CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades. The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the City's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be recovered. Neither State law nor the City's investment policy requires consideration of custodial credit risk. As of June 30, 2012 the City's book balance of its deposits was \$1,585,832; the total book balance was \$1,586,182, due to \$350 in cash on hand. The bank balance was \$1,656,474 which was exposed to custodial credit risk, as follows:

	<u>Bank</u>
	<u>Balance</u>
Insured by F.D.I.C.	\$ 268,842
Uninsured and Uncollateralized	<u>1,387,632</u>
Total	<u>\$1,656,474</u>

A reconciliation of cash as it appears on the financial statements follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$1,564,543
Fiduciary Fund – Statement of Assets and Liabilities	<u>21,639</u>
Total	<u>\$1,586,182</u>

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's deposits and investments consisted of the following:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Savings and Checking Accounts	\$ 268,842	Demand
Pooled Investments (Share price=\$1)	<u>1,387,632</u>	Demand
	<u>\$1,656,474</u>	

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. The City has more than 5% of total cash and investments in the Oakland County Pooled Investment Fund (61%).

B. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 745,901	\$ -	\$ -	\$ 745,901
Capital Assets, being depreciated:				
Infrastructure	1,599,996	124,311	-	1,724,307
Building and Improvements	1,247,575	7,320	-	1,254,895
Furnishings, Fixtures, and Equipment	342,253	1,215	-	343,468
Vehicles	294,892	81,946	(38,689)	338,149
	<u>3,484,716</u>	<u>214,792</u>	<u>(38,689)</u>	<u>3,660,819</u>
Less: Accumulated Depreciation:				
Infrastructure	(151,426)	(40,000)	-	(191,426)
Building and Improvements	(88,914)	(24,892)	-	(113,806)
Furnishings, Fixtures, and Equipment	(189,538)	(30,196)	-	(219,734)
Vehicles	(213,483)	(11,963)	29,214	(196,232)
	<u>(643,361)</u>	<u>(107,051)</u>	<u>29,214</u>	<u>(721,198)</u>
Governmental Activities Capital Assets, net	<u>\$ 3,587,256</u>	<u>\$ 107,741</u>	<u>\$ (9,475)</u>	<u>\$ 3,685,522</u>

Depreciation expense was charged on the Statement of Activities as follows:

General Government	\$ 26,144
Public Safety	22,895
Public Works	55,172
Recreation and Cultural	2,840
	<u>\$ 107,051</u>

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Transfers

<u>Transfers Out:</u>	<u>Transfers In:</u>	<u>Total</u>
Major Streets Fund	Local Streets Fund	\$ 64,127
TIFA Fund	TIFA Debt Service Fund	<u>122,500</u>
		<u>\$ 186,627</u>

Transfer to the Local Streets Fund from the Major Streets Fund is to fund current year local street projects.  
Transfers to the Debt Service Funds are funding for semi-annual debt payments.

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2012:

	<u>Interest Rates</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities:						
General Obligation Bonds:						
Oakland County Building Authority Bonds Series 2010G						
Issue Amount: \$1,120,000						
Maturing through 2040	2.00-4.25%	\$ 1,120,000	\$ -	\$ 20,000	\$ 1,100,000	\$ 25,000
Capital Improvement Bonds						
Issue Amount: \$1,400,000						
Maturing through 2022	3.50-4.60%	<u>1,070,000</u>	<u>-</u>	<u>75,000</u>	<u>995,000</u>	<u>80,000</u>
Total General Obligation Bonds		2,190,000	-	95,000	2,095,000	105,000
Compensated Absences		<u>34,010</u>	<u>722</u>	<u>-</u>	<u>34,732</u>	<u>-</u>
		<u>\$ 2,224,010</u>	<u>\$ 722</u>	<u>\$ 95,000</u>	<u>\$ 2,129,732</u>	<u>\$ 105,000</u>

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

III. DETAILED NOTES ON ALL FUNDS – Continued

D. Long-Term Debt – Continued

The City has issued Building Authority Bonds, Series 2010G, through the Oakland County Building Authority in the amount of \$1,120,000 to be paid over 30 years with interest rates from 2.00% - 4.25%. In accordance with the requirement of the Building Authority Bonds, the City deeded the City Hall Administration Building and the DPW Building to the Oakland County Building Authority who leases these buildings back to Oakland County. The City then entered into an agreement with the County to sublease the City Hall Administration Building and the DPW Building over the 30 year period of the bonds for rental payments which will equal an amount sufficient to pay the debt service requirements and other related costs. The ownership of the buildings will be transferred at no additional cost to the City upon full payment and retirement of the bonds and the receipt of all rental payments from the City.

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2012 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 105,000	\$ 87,817
2014	105,000	84,318
2015	110,000	80,618
2016	115,000	76,918
2017	120,000	72,893
2018-2022	705,000	289,711
2023-2027	165,000	163,747
2028-2032	195,000	121,285
2033-2037	240,000	76,075
2038-2041	235,000	20,718
	<u>\$ 2,095,000</u>	<u>\$ 1,074,100</u>

E. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on July 31, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2011 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	12.4616
Publicity	.5876
Library	<u>.3000</u>
Total	<u>13.3492</u> mills

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

IV. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2010.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2009 as follows:

General	28.89%
Police - Fire	\$3,205/month

The City approved revisions to the MERS benefit provisions for the General employees which resulted in the City contributing a flat monthly amount of \$4.016 beginning May 1, 2012.

c. Annual Pension Cost

During the fiscal year ended June 30, 2012, the City's contributions totaling \$77,410 and employees' contributions totaling \$18,148 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2009.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

IV. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost – Continued

<u>Three-Year Trend Information</u>				
<u>Fiscal Year</u> Ended <u>June 30,</u>	<u>Valuation</u> Date <u>Dec. 31</u>	<u>Annual</u> Pension Cost (APC)	<u>Percentage</u> of APC Contributed	<u>Net</u> Pension Obligation
2010	2007	\$81,746	100%	-0-
2011	2008	61,492	100%	-0-
2012	2009	77,410	100%	-0-

The information presented above was determined as part of the actuarial valuations at the dates indicated.

B. Post Retirement Health Care Benefits

Plan Description – The City provides health care insurance coverage to all eligible full-time employees who retire from the City, in accordance with labor contracts and City policy. Currently 4 retirees are covered by this plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the fiscal year 2012, this amounted to \$13,364.

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis).

Funding Progress – For the year ended June 30, 2012, the City has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

The computed contribution and actual funding are summarized as follows:

Annual Required Contribution (recommended)	\$ 91,717
Interest on the prior year's net OPEB obligation	-
Less adjustment to the annual required contribution	-
Annual OPEB Cost	<u>91,717</u>
Amounts Contributed:	
Payments of current premiums	(13,364)
Advance funding	-
Increase(Decrease) in net OPEB obligation	<u>78,353</u>
OPEB obligation - Beginning of Year	<u>152,393</u>
OPEB obligation - End of Year	<u>\$ 230,746</u>

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of July 1, 2009:	
Actuarial Value of Assets	\$ 86,847
Actuarial Accrued Liability (AAL)	727,995
Unfunded AAL (UAAL)	641,148
Funded Ratio	11.93%
Ratio of UAAL to covered payroll	Not available

<u>Fiscal Year</u> <u>Ended</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>OPEB Costs</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2010	7/1/2009	\$ 99,511	21%	\$ 78,336
6/30/2011	7/1/2009	\$ 98,383	25%	\$ 152,393
6/30/2012	7/1/2009	\$ 91,717	15%	\$ 230,746

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.



CITY OF KEEGO HARBOR  
Notes to Financial Statements  
June 30, 2012

IV. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

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

In the July 1, 2009 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return. The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years.

C. Risk Management

The City is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund. In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made. No such event has occurred with the City and the pools to which it belongs in any of the past three fiscal years.

C. Upcoming Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued a new pronouncement in June 2011, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement amends net asset reporting requirements of GASB Statement No. 34 by incorporating deferred outflows and deferred inflows into the definition of the component of residual measure and by renaming that measure as net position, rather than net assets. This statement also results in changes to the financial reporting format which include a Statement of Net Position and inclusion of deferred inflows and deferred outflows on the governmental fund balance sheets. This new standard will be effective beginning with the City's fiscal year ended June 30, 2013.



REQUIRED SUPPLEMENTARY INFORMATION



CITY OF KEEGO HARBOR  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2012

Municipal Employees Retirement System  
Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u>
12/31/01	\$1,261,021	\$1,472,387	\$211,366	86%	\$528,156	40%
12/31/02	1,278,011	1,550,351	272,340	82	555,463	49
12/31/03	1,390,051	2,027,587	637,536	69	567,030	112
12/31/04	1,529,043	2,266,651	737,608	67	582,755	127
12/31/05	1,723,202	2,475,745	752,543	70	574,952	131
12/31/06	1,904,384	2,693,210	788,826	71	678,492	116
12/31/07	2,107,062	2,972,595	865,533	71	698,153	124
12/31/08	2,235,177	3,332,397	1,097,220	67	712,058	154
12/31/09	2,437,784	3,570,760	1,132,976	68	477,885	237
12/31/10	2,413,574	3,615,608	1,202,034	67	299,767	401

Additional information as of December 31, 2010, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50% - 12.90%
Includes inflation at 2.0%	
Cost of living adjustments	None

**CITY OF KEEGO HARBOR**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$ 1,186,041	\$ 1,198,214	\$ 1,198,180	\$ (34)
Licenses and Permits	3,575	6,685	6,692	7
Intergovernmental - Federal/CDBG	10,325	4,033	4,033	-
Intergovernmental - Federal/NSP	38,226	71,470	71,470	-
Intergovernmental - State	189,900	229,388	224,275	(5,113)
Charges for Services	238,851	337,450	336,226	(1,224)
Fines and Forfeitures	28,800	28,355	29,847	1,492
Franchise Fees	45,200	47,765	39,757	(8,008)
Interest	5,050	7,850	7,698	(152)
Other	1,600	4,362	4,102	(260)
<b>Total Revenues</b>	<b>1,747,568</b>	<b>1,935,572</b>	<b>1,922,280</b>	<b>(13,292)</b>
Expenditures:				
General Government:				
City Council	820	820	785	35
Administration	253,595	248,431	248,076	355
Elections	2,500	2,267	2,205	62
Assessing	23,750	23,750	23,325	425
Information Technology	5,300	5,300	5,196	104
Board of Review	400	400	293	107
Finance/Treasurer	2,000	2,450	2,450	-
Professional Fees	69,700	51,700	59,632	(7,932)
Building and Grounds	34,060	32,806	32,763	43
Other	800	900	696	204
<b>Total General Government</b>	<b>392,925</b>	<b>368,824</b>	<b>375,421</b>	<b>(6,597)</b>
Public Safety:				
Police	613,313	620,670	623,273	(2,603)
Fire	260,315	260,315	260,313	2
Inspection Services	31,648	47,666	46,126	1,540
<b>Total Public Safety</b>	<b>905,276</b>	<b>928,651</b>	<b>929,712</b>	<b>(1,061)</b>
Community Development:				
CDBG	2,475	4,167	4,157	10
Neighborhood Stabilization Program	19,000	50,235	50,235	-
Planning and Zoning	12,225	18,075	18,180	(105)
<b>Total Community Development</b>	<b>33,700</b>	<b>72,477</b>	<b>72,572</b>	<b>(95)</b>
Public Works:				
Department of Public Works	225,621	245,688	242,801	2,887
Street Lighting	40,000	52,100	52,213	(113)
Watershed/Storm Water	7,450	4,950	4,180	770
<b>Total Public Works</b>	<b>273,071</b>	<b>302,738</b>	<b>299,194</b>	<b>3,544</b>

(Continued)

**CITY OF KEEGO HARBOR**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Recreation and Cultural:				
Parks	\$ 17,296	\$ -	\$ -	\$ -
Recreation	<u>3,200</u>	<u>2,979</u>	<u>2,972</u>	<u>7</u>
Total Recreation and Cultural	<u>20,496</u>	<u>2,979</u>	<u>2,972</u>	<u>7</u>
Other Functions:				
Retiree Health Insurance	17,800	13,874	13,864	10
Tax Tribunals	20,000	57,500	55,358	2,142
Contingency	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Functions	<u>54,800</u>	<u>71,374</u>	<u>69,222</u>	<u>2,152</u>
Debt Service:				
Principal	25,000	25,000	20,000	5,000
Interest and Fees	<u>42,300</u>	<u>42,300</u>	<u>47,180</u>	<u>(4,880)</u>
Total Debt Service	<u>67,300</u>	<u>67,300</u>	<u>67,180</u>	<u>120</u>
Total Expenditures	<u>1,747,568</u>	<u>1,814,343</u>	<u>1,816,273</u>	<u>(1,930)</u>
Excess (Deficiency) of Revenues Over Expenditures	-	121,229	106,007	(15,222)
Fund Balance - Beginning	<u>674,963</u>	<u>674,963</u>	<u>674,963</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 674,963</u>	<u>\$ 796,192</u>	<u>\$ 780,970</u>	<u>\$ (15,222)</u>

**CITY OF KEEGO HARBOR**  
**Major Streets Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ 84,000	\$ 87,077	\$ 105,385	\$ 18,308
Interest	1,200	1,680	1,605	(75)
Other	6,178	12,821	844	(11,977)
Total Revenues	<u>91,378</u>	<u>101,578</u>	<u>107,834</u>	<u>6,256</u>
Expenditures:				
Highways and Streets:				
General Administration	8,400	8,771	10,538	(1,767)
Road Preservation	8,000	340	340	-
Routine Maintenance	24,081	17,965	13,657	4,308
Traffic Services	3,000	3,000	2,438	562
Winter Maintenance	14,497	7,227	6,086	1,141
Total Expenditures	<u>57,978</u>	<u>37,303</u>	<u>33,059</u>	<u>4,244</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>33,400</u>	<u>64,275</u>	<u>74,775</u>	<u>10,500</u>
Other Financing Sources (Uses):				
Operating Transfers Out	(50,000)	(55,287)	(64,127)	(8,840)
Total Other Financing Sources(Uses)	<u>(50,000)</u>	<u>(55,287)</u>	<u>(64,127)</u>	<u>(8,840)</u>
Net Change in Fund Balance	(16,600)	8,988	10,648	1,660
Fund Balance - Beginning	<u>185,676</u>	<u>185,676</u>	<u>185,676</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 169,076</u>	<u>\$ 194,664</u>	<u>\$ 196,324</u>	<u>\$ 1,660</u>



**CITY OF KEEGO HARBOR**  
**Local Streets Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ 42,500	\$ 44,632	\$ 52,112	\$ 7,480
Interest	150	250	255	5
Other	4,000	40,583	36,582	(4,001)
Total Revenues	<u>46,650</u>	<u>85,465</u>	<u>88,949</u>	<u>3,484</u>
Expenditures:				
Highways and Streets:				
General Administration	3,600	3,731	4,479	(748)
Road Preservation	50,000	112,896	117,044	(4,148)
Routine Maintenance	31,243	27,871	20,558	7,313
Winter Maintenance	19,080	11,043	11,041	2
Total Expenditures	<u>103,923</u>	<u>155,541</u>	<u>153,122</u>	<u>2,419</u>
Excess (Deficiency) of Revenues Over Expenditures	(57,273)	(70,076)	(64,173)	5,903
Other Financing Sources:				
Operating Transfers In	<u>50,000</u>	<u>55,287</u>	<u>64,127</u>	<u>8,840</u>
Net Change in Fund Balance	(7,273)	(14,789)	(46)	14,743
Fund Balance - Beginning	<u>82,279</u>	<u>82,279</u>	<u>82,279</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 75,006</u>	<u>\$ 67,490</u>	<u>\$ 82,233</u>	<u>\$ 14,743</u>

**CITY OF KEEGO HARBOR**  
**TIFA Special Revenue Fund**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$ 113,550	\$ 120,443	\$ 120,443	\$ -
Interest	<u>2,000</u>	<u>2,232</u>	<u>2,121</u>	<u>(111)</u>
Total Revenues	<u>115,550</u>	<u>122,675</u>	<u>122,564</u>	<u>(111)</u>
Expenditures:				
Public Works	<u>19,732</u>	<u>19,736</u>	<u>41,857</u>	<u>(22,121)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>95,818</u>	<u>102,939</u>	<u>80,707</u>	<u>(22,232)</u>
Other Financing Uses:				
Operating Transfers Out	<u>(121,130)</u>	<u>(122,500)</u>	<u>(122,500)</u>	<u>-</u>
Net Change in Fund Balance	(25,312)	(19,561)	(41,793)	(22,232)
Fund Balance - Beginning	<u>245,647</u>	<u>245,647</u>	<u>245,647</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 220,335</u>	<u>\$ 226,086</u>	<u>\$ 203,854</u>	<u>\$ (22,232)</u>

OTHER SUPPLEMENTARY INFORMATION

**CITY OF KEEGO HARBOR**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2012**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project Funds</u>		<u>Total</u>
	<u>Library</u>	<u>TIFA Debt</u>	<u>Capital Projects</u>	<u>City Hall/Police Construction</u>	
<b><u>Assets</u></b>					
Cash and Cash Equivalents	\$ <u>-</u>	\$ <u>3,753</u>	\$ <u>17,791</u>	\$ <u>17,990</u>	\$ <u>39,534</u>
<b><u>Liabilities and Fund Balance</u></b>					
Liabilities:					
Accounts Payable	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,228</u>	\$ <u>3,925</u>	\$ <u>6,153</u>
Fund Balance:					
Restricted for Debt	-	3,753	-	-	3,753
Restricted for Construction	-	-	12,136	14,065	26,201
Restricted for Veterans Memorial	-	-	3,427	-	3,427
Total Fund Balance	<u>-</u>	<u>3,753</u>	<u>15,563</u>	<u>14,065</u>	<u>33,381</u>
Total Liabilities and Fund Balance	\$ <u>-</u>	\$ <u>3,753</u>	\$ <u>17,791</u>	\$ <u>17,990</u>	\$ <u>39,534</u>

**CITY OF KEEGO HARBOR**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**For the Year Ended June 30, 2012**

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project Funds</u>		<u>Total</u>
	<u>Library</u>	<u>TIFA Debt</u>	<u>Capital Projects</u>	<u>City Hall/Police Construction</u>	
Revenues:					
Property Taxes	\$ 25,411	\$ -	\$ -	\$ -	\$ 25,411
Interest	48	34	226	181	489
Other	-	-	31,266	905	32,171
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	25,459	34	31,492	1,086	58,071
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures:					
Library Services	25,459	-	-	-	25,459
Debt Service:					
Principal	-	75,000	-	-	75,000
Interest and Fees	-	46,355	-	-	46,355
Capital Outlay	-	-	83,161	18,735	101,896
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	25,459	121,355	83,161	18,735	248,710
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	-	(121,321)	(51,669)	(17,649)	(190,639)
Other Financing Sources (Uses):					
Operating Transfers In	-	122,500	-	-	122,500
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	-	1,179	(51,669)	(17,649)	(68,139)
Fund Balance - Beginning	-	2,574	67,232	31,714	101,520
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - Ending	\$ -	\$ 3,753	\$ 15,563	\$ 14,065	\$ 33,381
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



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*Certified Public Accountants*

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October 8, 2012

To the Mayor and City Council  
City of Keego Harbor  
Oakland County, Michigan

In planning and performing our audit of the financial statements of City of Keego Harbor as of and for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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 misstatements 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. We consider the following deficiencies in the City's internal control to be significant deficiencies:

The City relies on its auditors to prepare the annual financial statements. While this is common in smaller local units of government, we are required to communicate this to you as part of recently issued auditing standards. The City's administrative officials did review the financial statements prior to their release.

Mayor and City Council  
City of Keego Harbor  
October 8, 2012  
Page 2

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

Sincerely,

A handwritten signature in black ink that reads "Post Smythe Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants



# POST, SMYTHE, LUTZ and ZIEL

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October 8, 2012

To the Mayor and City Council  
City of Keego Harbor  
Oakland County, Michigan

We have audited the financial statements of the City of Keego Harbor for the year ended June 30, 2012, and have issued our report thereon dated October 8, 2012. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated August 1, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Keego Harbor. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 25, 2012.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Keego Harbor are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Estimates of the allowance for doubtful accounts for property tax collections are based on historical collection statistics.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements related to those estimates discussed in the section above.

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

We encountered no 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 trivial, and communicate them to the appropriate level of management. There were no misstatements during our audit.

#### **Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 8, 2012.

#### **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.

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

Sincerely,

A handwritten signature in black ink that reads "Post Smythe Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP  
Certified Public Accountants